REPORT OF WORKING GROUP ON RESOURCE MOBILISATION, PROFITABILITY, ETC.

OF

STATE FINANCIAL CORPORATIONS

RESERVE BANK OF INDIA

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FOREWORD

The various State Financial Corporations were established in the fifties and the early sixties with a view to providing term finance to industry–particularly to concerns in the medium and small scale sectors. Since their establishment, they have played a significant role in helping the growth of industries in their respective States by extending financial assistance predominantly in the form of term loans and, to a small extent, by underwriting capital issues and guaranteeing deferred payments and similar obligations. With the growing emphasis on accelerating the pace of industrial growth, particularly in the small and medium scale sectors which now encompass more modern and sophisticated industries and also having in view the need to achieve a wider geographical dispersal of industries it has become necessary for SFCs to play a greater role than hitherto. This calls for a strengthening of their organisational and financial aspects. This matter was considered at a conference of the representatives of the SFCs held in March 1970 under the aegis of the RBI. In pursuance of a recommendation made at the conference, the Reserve Bank of India constituted a Working Group to study the problems involved and make suitable recommendations. The report of the Group, which is now published, examines the question of resource mobilisation in the context of the need for a substantial enlargement in the scope of the activities of the SFCs. The Group has made a number of suggestions for enhancing the usefulness and the role of SFCs and they are embodied in the report that follows. The findings and the recommendations of the Group are those of its members and they do not commit the Reserve Bank.

V. V. Chari
Deputy Governor

RESERVE BANK OF INDIA,
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Bombay.

C O N T E N T S

APPENDICES

CHAPTER I

Introductory

The Reserve Bank of India set up in April 1970 a Working Group to examine certain aspects of the operations of State Financial Corporations (SFCs) in pursuance of the decision taken at the Fourteenth Conference of representatives of SFCs held at Bombay in March 1970. The composition of the Working Group was as follows :—

1.	Shri K N R. Ramanujam, Chief Officer, Industrial Finance Department, Reserve Bank of India, Bombay.	Chairman
2.	Shri Brahma Swarup, Managing Director, Madhya Pradesh Financial Corporation, Indore.	Member
3.	Shri V. G. Hegde, Deputy Legal Adviser, Reserve Bank of India, Bombay.	"
4.	Shri J. R. Joshi, Investment Secretary, Life Insurance Corporation of India, Bombay.	"
5.	Shri M. S. Palnitkar, Managing Director, Maharashtra State Financial Corporation, Bombay.	"
6.	Shri M. R. Roy, Managing Director, West Bengal Financial Corporation, Calcutta.	"
7.	Shri S. P. Sen Gupta, Chief Officer (Operations), State Bank of India, Bombay.	"

8.	Shri C. S. Seshadri, Managing Director, Mysore State Financial Corporation, Bangalore.	Member
9.	Shri Sunder Singh, Managing Director, Punjab Financial Corporation, Chandigarh.	"
10.	Shri A. N. Vij, Deputy General Manager, Industrial Development Bank of India, Bombay.	"
11.	Shri P. R. Rajaratnam, Assistant Chief Officer, Industrial Finance Department, Reserve Bank of India, Bombay.	Member-Secretary

2. The terms of reference of the Group were —

Terms of reference

(i) to review the position of resources of SFCs and the cost of raising them and to suggest measures for augmenting the resources, having regard to the need for increasing and diversifying their business, particularly for undertaking underwriting obligations and participating in equity;

(ii) to examine and suggest modifications, if necessary, to statutory provisions governing mobilisation of resources by SFCs;

(iii) to study the profitability of SFCs with particular reference to their liability for payment of subvention, for payment of minimum dividend, taxes, stamp duty, registration charges on documents, etc. and make suggestions for improving their profits and reserves;

(iv) to examine the statutory provisions regarding SFCs' operations and suggest changes required, if any; and

(v) to consider and make recommendations on other incidental matters.

Working Group meetings

3. The Group held its first meeting in Bombay on 22 August 1970 and discussed broadly a few of the major issues of its terms of reference. The residual items were covered at the second meeting of the Group held at Hyderabad on 14 and 15 September 1970. In the light of the general con-

clusions which had emerged in these two meetings, a draft Report was prepared and circulated to the members. In accordance with the views expressed or modifications suggested by the members, the Report was finalised at the third and final meeting convened at Bangalore on 12 and 13 October 1970. Shri Sunder Singh could not attend the first two meetings. The following persons participated by special invitation in the discussions at the meetings indicated against their names :—

1.	Shri H. E. Chatelier, State Bank of India	—	First meeting
2.	Shri D. V. Narasimhan, Tamilnadu Industrial Investment Corporation Ltd.	—	Third meeting
3.	Shri K. C. Pandeya, Delhi Financial Corporation	—	-do-
4.	Shri O. Swaminatha Reddy, Andhra Pradesh State Financial Corporation	—	Second and third meetings
5.	Shri W. J. F. Vaz, Reserve Bank of India	—	First and second meetings

The Chairman and some of the members held discussions with the Finance Secretary, Government of Andhra Pradesh and the Minister for Finance and the Finance Secretary of the Mysore Government on some of the recommendations of the Group which depended to some extent on State Governments' policies.

1962 Working Group

4. Apart from the periodical reviews made by the Reserve Bank for its internal purposes and the discussions held periodically by the representatives of the SFCs at the Conferences convened by the Reserve Bank (the last Conference was held in March 1970), the policies, procedures and problems of the SFCs were examined in detail in 1962 by a Working Group appointed by the Reserve Bank under the Chairmanship of Shri K. C. Mittra. Its report was published in 1964. Since its publication, there have been a number of changes in the financial scene such as in the priority accorded (by the Central Government) to the development of small industries, the role assigned to banks and other financial institutions in the financing of this sector and the institutional framework for rendering financial and other assistance to small industries. The setting up of the Industrial Development Bank of India (IDBI) in 1964 is perhaps the most significant of the institutional developments. The SFCs which have been expected to assist actively the industrial development of the States, especially in the growth of small industries, recorded, barring a few exceptions, only limited progress.

CHAPTER II

General background to the operations of SFCs

Main business of the SFCs

5. The State Financial Corporations Act, 1951 came into force on 1 August 1952. There are at present 17 SFCs functioning in the country, one in each State. Their main business is to accelerate the industrial progress of the States through the extension of loans and advances to small and medium industries. In Tamilnadu, the Tamilnadu Industrial Investment Corporation Ltd. (TIIC) (the erstwhile name Madras Industrial Investment Corporation Ltd. was changed on 13 July 1970) had been set up under the Companies Act, in 1949, i.e. before the passage of the SFCs Act. This Corporation undertakes both promotional and financing functions and some of the restrictive provisions under the SFCs Act (such as the ceiling limit on financial assistance to a single unit and on the aggregate of deposits to be accepted, the prohibition on direct subscription to share capital of companies and the restriction on the period up to which shares which might devolve on the Corporation as a result of its underwriting commitments, etc.) are not applicable to it. However, the TIIC and the Reserve Bank have agreed on certain norms to be followed in regard to some of these aspects of its working. The size and pattern of its financial assistance and the main sources of its funds (loans 57%, underwriting and participation 28%, deferred payment guarantees 9% and loan guarantees 6% of its total assets and deposits 36% of its resources) differ from those of other SFCs. However, the differences are gradually becoming less significant following certain modifications in policy made by it at the instance of the Reserve Bank with the result that for all practical purposes TIIC may be deemed as one among the SFCs. Accordingly, TIIC has been treated and referred to as an SFC for the purpose of this Report.

Territorial coverage

6. Of the 18 SFCs, 11 have been operating for periods exceeding 15 years (Andhra Pradesh, Assam, Bihar, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamilnadu, Uttar Pradesh and West Bengal), four have been in existence for periods ranging between 10 and 15 years (Gujarat, Jammu & Kashmir, Mysore and Orissa) and the remaining three viz., Delhi, Haryana and Himachal Pradesh, which were carved out of the Punjab Financial Corporation, have been functioning for a little over 3 years. The Union Territories are served by the SFCs as indicated below :

	Union Territory	State Financial Corporation
(i)	Chandigarh	Delhi
(ii)	Goa, Daman and Diu	Maharashtra
(iii)	Dadra and Nagar Haveli	Gujarat
(vi)	Pondicherry	Tamilnadu
(v)	Manipur and Tripura	Assam

Nagaland, Andaman and Nicobar Islands and Laccadive, Minicoy and Amindivi Islands are not served by any SFC at present. It is understood that the Government of Assam has agreed to extend the jurisdiction of the Assam SFC to the State of Nagaland and that negotiations are in progress with the West Bengal Government to extend the jurisdiction of West Bengal SFC to the Andaman and Nicobar Islands. The Reserve Bank may take up with the Kerala State Government the question of extending the jurisdiction of the Kerala SFC to the Laccadive group of islands.

Classification of SFCs based on the size of average annual loan transactions

7. Taking into account the aggregate sanctions and disbursals of loans made by each of the 18 SFCs since their inception (in the case of Bombay and Punjab groups of SFCs the relative figures have been taken after their bifurcation), a classification of the SFCs according to the size of the average amount of loans sanctioned and disbursed per year is given below:

Average amount per year	No. of SFCs: Sanctions		No. of SFCs: Disbursals	
Upto Rs. 25 lakhs	1	(Himachal Pradesh)	1	(Himachal Pradesh)
Rs. 25 lakhs — Rs. 50 lakhs	5	(Assam, Bihar, Jammu & Kashmir, Kerala and Orissa)	7	(Assam, Bihar, Jammu & Kashmir, Kerala, Orissa, Rajasthan and Uttar Pradesh)
Rs. 50 lakhs — Rs. 1 crore	8	(Andhra Pradesh, Delhi, Madhya Pradesh, Mysore, Punjab, Rajasthan, Uttar Pradesh and West Bengal)	6	(Andhra Pradesh, Delhi, Madhya Pradesh, Mysore, Punjab and West Bengal)
Above Rs. 1 crore	4	(Gujarat, Haryana, Maharashtra and Tamilnadu)	4	(Gujarat, Haryana, Maharashtra and Tamilnadu)

For most of the SFCs the average amount sanctioned and disbursed per year was less than Rs. 1 crore. The average amount of sanction and dis-

bursement exceeded Rs. 1 crore for four SFCs. In the bracket covering between Rs. 50 lakhs and Rs. 1 crore there were eight and six SFCs respectively. Six SFCs under sanctions and eight SFCs under disbursals figured in the bracket below Rs. 50 lakhs; these are the ones in respect of which there is particular need to concentrate on expanding their business in the next few years.

8. At the outset, we propose to examine broadly the sources and uses of SFCs' funds (vide statement of assets and liabilities given in Appendix I) so as to provide a background to their operations. The SFCs depend for their resources on (i) paid-up capital (ii) reserves (iii) borrowings from the Reserve Bank, IDBI, State Governments and to a small extent other financial institutions (iv) bonds and (v) deposits.

A. **LIABILITIES —**
(1) **Paid-up capital**

9. As on 31 March 1970, the aggregate paid-up capital of the SFCs amounted to Rs. 20.22 crores. Of this, the State Governments accounted for Rs. 10.47 crores or nearly 52%. The Reserve Bank and the IDBI together contributed Rs. 3.19 crores or about 16%. The residual amount was subscribed to by scheduled banks, Life Insurance Corporation of India (LIC) and insurance companies, other financial institutions and a few other persons. A classification of the SFCs according to the size of their capital is given below :

Size of paid-up capital	**No. of SFCs**	
Less than Rs. 50 lakhs	1	(Himachal Pradesh)
Rs. 50 lakhs and over but less than Rs. 100 lakhs	3	(Delhi, Jammu & Kashmir and Punjab)
Rs. 100 lakhs and over but upto Rs. 150 lakhs	12	(Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Kerala, Madhya Pradesh, Maharashtra, Mysore, Orissa, Rajasthan and West Bengal)
Rs. 150 lakhs and over but upto Rs. 200 lakhs	1	(Uttar Pradesh)
Above Rs. 200 lakhs	1	(Tamilnadu)

SFCs may find it necessary to increase their capital in the following circumstances :—

(i) when they are about to reach the ceiling limit on their borrowings, guarantees, etc. as prescribed in Section 7 (5) of the SFCs Act. The Gujarat and Maharashtra SFCs are at present at this stage;

(ii) when they undertake or are desirous of undertaking a comparatively more risky business or on which no return will accrue in the initial period, such as underwriting the shares of industrial companies; and

(iii) when the Special Reserve Fund in terms of Section 35A of the SFCs Act reaches the ceiling limit of 10% of the paid-up capital prescribed in the statute. The West Bengal, Gujarat and Orissa SFCs have already reached this stage. Such a situation is expected to arise shortly for six other SFCs.

10. By and large, the present size of the paid-up capital of the SFCs is adequate only for enabling them to undertake conventional business such as making loans and advances and not for undertaking other developmental activity such as capital participation.

--(2) **Reserves**

11. The total reserves of the SFCs amounted to Rs. 4.88 crores as on 31 March 1970 made up as follows :—

(Rupees in crores)

	Amount Rs.	Percentage to total
(i) Special Reserve Fund under Section 35A of SFCs Act (being the amount of dividends foregone by the State Governments and the Reserve Bank)	1.14	23
(ii) Special Reserve Account (being the amount transferred from the profits in order to avail of the concession under the Income-tax Act)	2.34	48
(iii) General Reserve Fund under Section 35 of the SFCs Act and other reserves	1.40	29
	4.88	100

The reserves are inadequate in relation to (i) the paid-up capital of the SFCs; (ii) the period of 10 to 15 years during which most of them have been functioning; and (iii) the rising trend in their overdues and suit-filed debts. A classification of the SFCs based on the size of their reserves in relation to the paid-up capital is given below :—

Reserves ranging between	No. of SFCs
25% and 40% (the maximum for any SFC at present) of paid-up capital.	9 (Andhra Pradesh, Assam, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Mysore, Punjab and West Bengal).
15% and more but less than 25% of paid-up capital	6 (Bihar, Jammu & Kashmir, Kerala, Orissa, Rajasthan and Tamilnadu).
Less than 15% of paid-up capital	3 (Delhi, Himachal Pradesh and Uttar Pradesh).

The main reason why the SFCs have not been able to build up reserves is that the level of their operations has continued to remain low for most of them and still continues to be so for a few; consequently their operating profit has generally been low and could not accommodate even the minimum dividend obligations for some years, not to speak of any sizeable transfers to reserves. It was to overcome this basic deficiency that the Act was amended in 1962 at the instance of the Reserve Bank, providing for a build-up of special reserves through the foregoing of dividend by the State Governments and the Reserve Bank and exemption was given from income-tax on profits not exceeding 25% transferred to special reserves. Both these provisions have not been implemented in the manner visualised at the time of passing this legislation. The State Governments have generally been reluctant to forego the dividends on their entire shareholdings but have agreed to forego, on a matching basis, the specific amount of dividend foregone by the Reserve Bank on its entire shareholding, which forms a lower proportion of the total shares than that of the State Governments.

12. Similarly, a few SFCs have not taken full advantage of the concessions under the Income-tax Act in order to avoid drawing subvention from the State Governments for meeting their minimum guaranteed dividend obligations. There is not enough appreciation on the part of the State Governments that the availing of the exemption from income-tax strengthens the internal resources of SFCs, whereas payment of income-tax to avoid subvention (which is only a liability to be discharged later) entails an outflow of funds for them. In the long run, augmentation of

the internal resources of SFCs, even at the risk of increasing their subvention liability, is a prudent financial policy for the SFCs and in turn beneficial to the State Governments who are one of their major equity holders. The higher profits of the SFCs based on larger internal funds could be used to pay off the subvention liability, whereas once the taxes are paid, the SFCs are denuded of their internal resources and also proportionately their earning power.

13. Over and above the slackness in the growth of reserves, the SFCs have built up a liability in the shape of the subvention received by them from the State Governments for meeting their minimum dividend obligations. The SFCs have been required to pay the minimum guaranteed dividend right from their inception, although it is common knowledge that no term lending institution of the size of an SFC can earn profits sufficient to declare a dividend for the first 4 or 5 years. It is true that the provision was made to attract investmet in shares of the SFCs by banks and insurance companies; but the subvention is not in the form of an outright grant from the State Government but a liability to the Corporation, and as on 31 March 1970 the total subvention liability of SFCs amounting to Rs. 216 lakhs (including the liability of Rs. 36 lakhs of TIIC on account of dividends not received by the Tamilnadu Government) constitutes virtually a charge on their future profits. Against the paid-up capital of Rs. 20.22 crores this constitutes about 11% or about 2 to 3 years equity dividend of the SFCs. In effect, this anomaly arises from the fact that the Corporation's liability has been incurred for paying the shareholders (mainly the State Governments) a minimum dividend when their operations did not justify such a payment.

—(3) Bonds

14. The total amount raised by SFCs through issue of bonds and outstanding as on 31 March 1970 was Rs. 59.97 crores; it formed 47% of their total resources. Of this, a sum of Rs. 32.56 crores or about 54% was accounted for by five SFCs. The reliance of SFCs on bonds varied from 2% to 66%. The bonds are for periods of 10/12 years and carry at present interest at 6% per annum. If the brokerage and discount (at 50 paise for Rs. 100/-) and stamp duty are also taken into account, the cost of raising resources in the last two years in this form worked out to about 6.18% per annum. The terms of issue are in line with those of securities of the State Governments and other State Government-guaranteed obligations.

15. Though the bonds issued by the SFCs since 1969 have been oversubscribed, the earlier issues were not so successful. In the event of a shortfall to the subscription to the bond issues of SFCs, the IDBI offers to make good the deficiency. The bonds residually taken up by the Reserve Bank/IDBI amounted to Rs. 5.54 crores. The number of SFCs which entered the market during the last three years and those which have

entered or propose to enter during the current year are shown in the following table :—

(Rupees in lakhs)

Year	No. of SFCs	Amount of issue	Amount of excess subs-cription, if any	Amount subscribed to by IDBI
		Rs.	Rs.	Rs.
1967-68	7	510	18	65
1968-69	8	725	27	18
1969-70	10	1075	77	—
1970-71	11	1100	Yet to be issued*	

* During the current year up to 20 October 1970, four SFCs have issued bonds for an aggregate sum of Rs. 550 lakhs. The issues were over-subscribed. The remaining seven SFCs are yet to enter the market.

(**Note :**—Assuming that 11 SFCs issue bonds during the current year as proposed, four SFCs would have entered the market twice each, seven SFCs thrice each and one SFC four times during the four year period. Three SFCs did not issue bonds during this period).

It will be seen that the need for IDBI to subscribe to the bond issues of SFCs came down from Rs. 65 lakhs in 1967-68 to Rs. 18 lakhs in 1968-69 and thereafter it did not have to take up any amount. The main reasons for this development are : (i) the relative attractiveness of the coupon and effective rates on the bonds issued in recent years, following the reduction in Bank Rate in March 1968; (ii) the general improvement in the money market conditions with the LIC and the commercial banks having a relatively larger surplus of investible funds following an expansion in their operations generally and especially for LIC a rise in its premium income; and (iii) the permission now given for 50% of the monthly accruals to the Employees Provident Fund to be invested in State Government guaranteed securities. The fact that only some SFCs, although the number is rising each year, have found it necessary to enter the market every year shows the relative stagnancy or moderate rise in business of the other SFCs.

16. The IDBI offers refinance facilities in respect of term loans to industrial concerns by SFCs and other financial institutions. The minimum amount of a loan that is normally refinanced is Rs. 2 lakhs but for loans to small-scale industries guaranteed under the Credit Guarantee Scheme and to small road transport operators, the minimum amount has been reduced to Rs. 10,000 and Rs. 20,000 respectively. Refinance is provided up to 100% on loans up to any amount to small-scale units covered under the Credit Guarantee Scheme, loans up to Rs. 20 lakhs to small and medium-sized units in specified backward areas and other loans up to Rs. 5 lakhs. On larger loans, IDBI normally provides refinance up to 80%. While the normal rate of interest on refinance is 6%, certain concessional rates are allowed as follows :—

— (4) Refinance from IDBI.

1.	For small-scale industries covered under the Credit Guarantee Scheme.	4½% provided the interest charged by the lending institution to the borrower does not exceed 8% per annum
2.	Other loans.	5½% provided the primary lender does not charge to the borrower a rate exceeding 8½% per annum.
3.	Loans up to Rs. 20 lakhs granted to small and medium sized projects in specified backward areas.	3½% subject to interest charged by the primary lending institution not exceeding 6% per annum.

The total amount of refinance availed of and outstanding as on 31 March 1970 amounted to Rs. 22.44 crores. This formed 18% of the total resources of all SFCs. While bonds formed an important component of the total funds for almost all SFCs (35% to 60% of the total), the availment of refinance was not uniform as may be seen from the following table :—

Outstanding refinance as a percentage of working funds.	**No. of SFCs.**
30% to 41% (maximum achieved so far).	2 (Andhra Pradesh and Haryana).
15% to 30%	7 (Delhi, Gujarat, Maharashtra, Punjab, Rajasthan, Tamilnadu and West Bengal).
1% to 15%.	7 (Assam, Bihar, Kerala, Madhya Pradesh, Mysore, Orissa and Uttar Pradesh).
Not availed.	2 (Himachal Pradesh and Jammu & Kashmir).

Not all the SFCs have taken advantage of the concessional terms offered by the IDBI. To that extent they have failed to pass on the benefit of a lower rate of interest prescribed by the IDBI to the borrower. There is at present no uniform ratio between outstanding bonds and outstanding refinance of the SFCs.

17. — (5) **Borrowings from the Reserve Bank of India against ad hoc bonds.** As on 31 March 1970, eight SFCs had outstanding short term loans with the Reserve Bank, mostly against ad hoc bonds. The facility from the Reserve Bank can be utilised as a cash credit accommodation.

18. — (6) **Borrowings from State Governments.** Seven SFCs had borrowed from their respective State Governments amounts aggregating Rs. 3.01 crores as on 31 March 1970. A classification of this amount according to the purpose for which the amount was provided is given below :—

(Rupees in crores)

	Purpose	**Amount outstanding** Rs.	**No. of SFCs.**
1.	For underwriting capital issues of industrial concerns (Please see paragraph 23 below).	1.18	2
2.	Long term loans or deposits (repayable from 7 to 15 years and bearing interest at 3½%, 5½% and 6%).	1.04	3
3.	Temporary borrowings.	0.60	2
4.	Advance payment towards share capital.	0.19	1

19. — (7) **Deposits from individuals and institutions.** As on 31 March 1970, 11 SFCs had accepted deposits aggregating Rs. 13.36 crores of which TIIC (to which the restriction contained in Section 8 of the SFCs Act, viz., that deposits should not exceed paid-up capital, is not applicable) accounted for Rs. 9.68 crores. The Gujarat, Maharashtra and Mysore SFCs had almost reached the ceiling limit for deposits as prescribed in the statute. The rates of interest offered by the SFCs on their deposits, as prescribed by the Reserve Bank, are given in Appendix II.

20. On the assets side, loans and advances formed the most important item (about 80% of the total assets). Besides, as agent for the State Government, some of the SFCs have made some loans to small-scale industries under the State Aid to Industries Act out of funds provided by the State Governments. Ten SFCs disbursed Rs. 6.3 crores by way of such loans. Out of the total loans and advances outstanding at the end of March 1970 at Rs. 108.0 crores (including the agency loans referred to above), the small-scale industrial sector accounted for Rs. 36.6 crores or 33.9%. A statement showing the number and amount of the outstanding loans to the small-scale industries by each SFC as on 31 March 1970 is given in Appendix III. The percentage of such loans to total outstanding loans and advances, by number and by amount, is also given therein. A classification of the SFCs based on the assistance given by them to the small-scale industries is given below :—

B. ASSETS—

(1) **Loans and advances.**

Percentage of assistance to small-scale industries to total assistance.	**By number of loans**	**By Amount**
	No. of SFCs.	**No. of SFCs.**
Less than 25%	1	5
Between 25% and 50 %	1	8
Between 50% and 75%	8	4
Above 75%	8	1

It will thus be seen that there is considerable scope for increasing the assistance to this sector.

21. A statement showing the position of the overdue and suit-filed debts of each SFC as on 31 March 1970 is given in Appendix IV. A classification of the SFCs based on percentages of their overdue and suit-filed debts to total outstanding loans as on 31 March 1970 is given in the following table :

	No. of SFCs.
Under 10%..	4 (Delhi, Gujarat, Maharashtra and Uttar Pradesh).
10% and above but less than 20%	9 (Andhra Pradesh, Haryana, Himachal Pradesh, Jammu & Kashmir, Kerala, Mysore, Punjab, Rajasthan and West Bengal).
20% and above but less than 30%.	1 (Tamilnadu).
30% and above but less than 40%.	2 (Bihar and Madhya Pradesh).
40% and above.	2 (Assam and Orissa).

In six SFCs debts of this kind formed more than 15% of the total outstanding loans and advances and in two cases as much as over 40%. Such debts show generally a rising trend which is a disquieting feature in the operations of the SFCs.

(2) Investments—

— (i) Investment in Government securities — Rs. 3.35 crores.

22. SFCs' investments in Government securities form a legacy of the past and the SFCs do not at present make investments of this nature in sizeable amounts. It is bad financial policy for SFCs to borrow funds on long term at a comparatively high rate of interest and block a part of it in investments in Government securities yielding a lower rate of return.

— (ii) Investment in shares and debentures — Rs. 10.03 crores.

23. In terms of Section 25 (3) of the SFCs Act, the contingent liabilities of an SFC in respect of underwriting obligations and guarantee of loans and deferred payments should not exceed twice the paid-up capital and reserve fund of the Corporation. However, this restriction is not applicable to TIIC which according to its memorandum and articles of association, is authorised to underwrite shares and debentures of companies without any limit. Of the total investment in shares and debentures of all SFCs at Rs. 10.03 crores, the TIIC accounted for Rs. 7.47 crores. The experience of TIIC along with other SFCs in this line is given in Appendix V. During the last 9 years, the TIIC secured an average return of only 1.9% per annum on its investments. There was also no significant capital appreciation to offset the low yield. These are the inherent limitations of a policy of underwriting of shares and debentures of companies or capital participation by the SFCs, namely, the adverse impact on income in the initial years and the discount in the value of the shares until the companies declare dividends. The impact would be especially adverse if the preference and equity underwriting is not padded by adequately large debentures underwriting also or by term loans. The Gujarat and West Bengal SFCs have reported Rs. 74 lakhs and Rs. 58 lakhs respectively under this head. The Gujarat Government had provided the requisite funds for this purpose but such assistance was reduced considerably since 1968. The other SFCs have done either very little business of this type or none at all.

24. The main factors inhibiting the development of underwriting business by the SFCs are —

(i) the element of risk in underwriting is much greater than on loans to small and medium industrial units;

(ii) the equity and preference shares of small and medium scale

industrial units can command only a restricted market. The SFCs will thus find it difficult to dispose of the shares which may devolve on them as a result of their underwriting operations; and

(iii) the chances of a reasonable return on the funds invested are difficult to forecast and even if an industrial unit should prove to be successful, the SFC may expect a return only after about three to five years. As the SFC has to pay either dividend or interest on its funds, transactions involving blocking of funds without any yield for a few years could not find favour with the SFCs.

Minimum size of resources for viability.

25. Of the total resources of the SFCs as on 31 March 1970, the State Governments had contributed Rs. 14.64 crores while the Reserve Bank and IDBI had together provided Rs. 34.29 crores. These two sources together accounted for 38.6% of the total resources of the SFCs. The SFCs generally took about seven to ten years to earn profits adequate to meet the minimum guaranteed dividend obligation without having to draw subventions from the State Governments as also to transfer 25% of its profits to reserves to get income-tax exemption. Generally, minimum working funds of about Rs. 4 to 5 crores were needed to reach this stage.

Profit and loss account.

26. The net profit before taxation of all SFCs during 1969-70 amounted to Rs. 267 lakhs. The profit was adequate for all the SFCs except three (Himachal Pradesh, Jammu & Kashmir and Orissa) to pay the minimum guaranteed dividend without drawing subvention from the State Government. TIIC has so far paid the minimum dividend only to shareholders other than the State Government. The obligation to pay a minimum dividend has resulted in the inability of the SFCs to accumulate adequate reserves.

27. Appendix VI contains a statement showing the average net borrowing rate of each SFC, the average return on their assets and the spread between the two for 1969-70 (for TIIC 1968-69). The net borrowing rate was less than 5% for the Assam and Himachal Pradesh SFCs; this was because their working funds comprised almost entirely their capital provided by the State Governments at a comparatively low rate of dividend. For 13 SFCs the rate ranged between 5.1% and 5.9%. It was 6% for Orissa, 6.2% for Jammu & Kashmir and 6.4% for TIIC. For TIIC the comparatively high percentage was because deposits at high rates of interest formed a sizeable part of its operating funds. For Orissa and Jammu & Kashmir, the comparatively high rate stemmed from the fact that the former had availed itself of refinance facility only to a limited extent while the latter had not availed itself of this facility at all. The average return on funds worked out to between 6.8% and 8.9% for all

SFCs except Himachal Pradesh — 10% (this SFC, however, has done very little business). The spread between the borrowing rate and the return varies widely between SFCs as may be seen from the following table:

Spread	No. of SFCs.
1 — 1.5 per cent.	4 (Bihar, Kerala, Rajasthan and Tamilnadu).
1.5 — 2 per cent.	4 (Andhra Pradesh, Gujarat, Maharashtra and Orissa).
2 — 2.5 per cent.	3 (Madhya Pradesh, Uttar Pradesh and West Bengal).
2.5 — 3 per cent.	5 (Assam, Delhi, Jammu & Kashmir, Mysore and Punjab).
Above 3 per cent.	2 (Haryana and Himachal Pradesh).

The SFCs have to meet their administrative expenses and other overheads out of this spread. From this point of view a classification of SFCs on the basis of their working funds shows that three SFCs (Delhi, Himachal Pradesh and Jammu & Kashmir) had working funds below Rs. 3 crores, three SFCs (Bihar, Orissa and Punjab) between Rs. 3 crores and Rs. 4 crores, seven SFCs (Assam, Haryana, Kerala, Madhya Pradesh, Mysore, Rajasthan and Uttar Pradesh) between Rs. 4 crores and Rs. 8 crores and the remaining five SFCs (Andhra Pradesh, Gujarat, Maharashtra, West Bengal and Tamilnadu) above Rs. 8 crores. It is apparent that six SFCs with working funds below Rs. 4 crores should take urgent steps to increase their business expeditiously if they are to reach the minimum size for viability, i.e., to be in a position to maintain an efficient organisation, build up adequate reserves and pay the prescribed dividend to the shareholders without depending on subvention from the State Government.

CHAPTER III

A perspective of the performance of the State Financial Corporations during the Fourth Plan period.

28. We considered in the previous chapter the widely varying facets of performance and financial position of the SFCs. It would be useful if, before considering appropriate changes in their policies and procedures and measures for strengthening their resources, we set out a projection of their working during the Fourth Plan period. A projection is admittedly a difficult exercise. However, for providing a background to our recommendations, we attempt a projection of the operations of SFCs confined to the Fourth Plan period. The estimates are not to be taken as precise but tentative and indicative of only broad orders of magnitude.

29. Appendix VII contains a statement on the sources and uses of funds of the SFCs for 1969-70 (actual) and 1970-71 to 1973-74 (estimates) based on data furnished by 16 SFCs and estimates made by the Reserve Bank for the remaining two SFCs. According to the estimates, all the SFCs expect to disburse loans and advances for an aggregate sum of Rs. 180 crores during the five-year period. This estimate does not take into account the probable increase in functional expansion of business which may take place when our recommendations are implemented, such as larger equity participation, financial assistance to some new lines of activity, etc. This also does not take into account the programmes and policy changes envisaged by the Central Government for the development of small-scale industries. The SFCs have anticipated an increase in their financial assistance by 25% from year to year during the Fourth Plan period. This order of expansion, however, would fall very much short of the requirements of small-scale industries envisaged in the Fourth Plan, not to mention those of small units in the medium-scale sector.

30. The total investment in fixed assets by small industries for the private sector during the Fourth Plan period is expected to be Rs. 390 crores*. This figure may go up, say, to Rs. 425 crores, in view of the recent decision of the Central Government to reserve additional 65 industries for development in the small industries sector and the programme being drawn up for the growth of ancillary industries. Assuming that about 25% of fixed investments are by persons who do not approach financial institutions for assistance, i.e., self-financed and/or financed through borrowings from friends and relatives, the requirements to be met by institutional sources would be about Rs. 320 crores. Allowing for a margin of about 25% which the borrowers are usually required to maintain on their borrowings against fixed assets, the demand on institutional credit would be of the order of Rs. 240 crores. A part of the

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* Based on a study made by the Office of the Development Commissioner for Small-Scale Industries (Appendix VIII).

margin requirements of small industries may have to be met by the SFCs in the form of equity participation (vide paragraphs 49 to 59 below). If the SFCs are to devote all their disbursals during this period, they might meet the total requirements of small industries. But obviously this total preoccupation with the needs of small industries may not be practicable or feasible as they are also required to cater to the credit needs of the smaller bracket of medium sized industrial units. Assuming that the SFCs succeed in meeting at least 2/3 of the total requirements, i.e., to the extent of Rs. 160 crores, it is necessary that the residual requirements of small-scale industries should be met by other major financial institutions catering to the term credit requirements of small industries such as the commercial banks — the major contribution being from the State Bank group — and the National Small Industries Corporation (NSIC). The increase in outstanding term loans by State Bank of India and its subsidiaries during 1969-70 was Rs. 9 crores. The contribution of other banks, which have only recently entered the field, may be placed around Rs. 6 crores during this period. The total disbursements of term loans to small industries by the banks during 1969-70 may, therefore, be estimated at Rs. 15 crores and those by the NSIC may amount to Rs. 4 crores. Taking into account the steps being taken by banks to meet the credit requirements of small industries and also assuming that the SFCs would extend their operations geographically and functionally and meet the term credit requirements of this sector to a greater measure, the disbursements by the banks (Rs. 60 crores) and the NSIC (Rs. 20 crores) together during the Fourth Plan period may be estimated at Rs. 80 crores.

31. The following table brings out the trends in the relative shares of SFCs in the financing of industries in the private sector during each of the plan periods.

(Amounts in crores of rupees)

	First Plan 1951-56	Second Plan 1956-61	Third Plan 1961-66	1966-69	1969-70	Fourth Plan 1970-74
1. Village and small industries	146	175	275	N.A	560	
2. Organised industry and minerals	276	675	1050	N.A.	2000	
3. Total of 1 and 2	422	850	1325	N.A.	2560	
4. Loans disbursed/ required to be disbursed by SFCs.						
i) Small scale	N.A.	N.A.	12	16	13	147
					160	
ii) Others	N.A.	N.A.	48	35	9	71
					80	
iii) Total	4	19	60	51	22	218
					240	

	First Plan 1951-56	Second Plan 1956-61	Third Plan 1961-66	1966-69	1969-70	Forth Plan 1970-74
5. % of 4 (i) to 1	—	—	4.4	—	23.2	
6. % of 4 (ii) to 2	—	—	4.6	—	0.5	
7. % of 4 (iii) to 3	1.0	2.2	4.5	—	9.4	

The amount disbursed by the SFCs to small-scale industries during 1969-70 (Rs. 13 crores) formed about 59% of the total disbursals of about Rs. 22 crores. In order to achieve the targets of disbursals outlined in paragraph 30, the SFCs should increase their assistance to the small-scale sector during the remaining years of the Fourth Plan period to an average of about Rs. 35 crores per year or nearly three times the level of their disbursements to this sector during 1969-70; for other industries, the disbursements should go up to Rs. 18 crores per year or about twice the disbursements during 1969-70. This means an acceleration of about 40%-50% in the disbursals from year to year during the rest of the Fourth Plan period. This is difficult of achievement by the SFCs unless special measures are devised by them to seek and locate existing small industries and identify potential small industries and entrepreneurs in undeveloped districts and meet their term requirements. It will also become necessary for them to accord priorities for assistance, i.e., as between small-scale sector and medium-size industries. Roughly the annual disbursement to the small-scale industries should be twice that to the medium-scale sector. In other words about two-thirds of the annual disbursements should be to the small-scale industries. If such priorities are not accorded and due emphasis is not placed on assistance to the small-scale industrial sector, the SFCs would naturally be blamed for not playing their part in the total expansion envisaged in this sector during the Fourth Plan period. It is their paramount duty to aim at aggregate disbursals of Rs. 240 crores during the Fourth Plan period and divert at least 65% of their disbursements to the small-scale sector. To achieve these ends, the SFCs should have a competent and dedicated personnel to discharge their functions with a missionary zeal.

32. It will be seen from the orders of magnitude emerging from the above analysis that it would be difficult for the SFCs alone to finance the total requirements of small-scale industries, not to speak of medium-size units. Commercial banks have to play their part as also NSIC to meet a sizeable share of the needs of the small industries sector. Accordingly it would not be prudent to suggest a reservation of areas in the financing of term loans solely by the SFCs.

CHAPTER IV

The scope for expanding functionally and geographically the assistance of State Financial Corporations

33. The broad orders of magnitude envisaged for the increased level of operational activity of the SFCs during the Fourth Plan may not be realised unless simultaneously there is an expansion in the functional and geographical coverage of their activities. In recent times, SFCs have been criticised by the Federation of Associations of Small Industries of India that they have failed to measure up to their expectations in rendering financial assistance. There is also a demand that the scope of operations of the SFCs should be expanded so as to cover certain lines of activity, some of which have developed in recent times but do not conform to the definition of "industrial concern" as contained in Section 2(c) of the SFCs Act. For example, servicing and repairing units in certain lines of activity and custom service units (including concerns engaged in tubewell boring for agricultural purposes) have been declared as eligible for guarantee facilities under the Credit Guarantee Scheme for small-scale industries but are not eligible for loans and other financial assistance from SFCs. A list of such activities which are eligible for guarantee but not eligible for assistance by SFCs, at present is given in Appendix IX.

Inadequate assistance to small industries and lack of assistance to certain other units

34. The SFCs, on the other hand, experience certain difficulties in their business even within the existing framework. One reason why the SFCs have not been able to make more loans and advances to the small-scale industrial sector, we have been told, is the difficulty experienced by them in locating the units. However, the experience and efforts of commercial banks in this direction would indicate that this is not an insurmountable problem, although it is admitted that the existing system of registration followed by the Directors of Industries suffers from several drawbacks. Firstly, the lists from the Directorates include names of very small units not requiring fixed assets of sizeable amounts or units such as laundries or others which are not eligible for financial assistance from the SFCs. Secondly, a number of units included in the Directorates' records have either become defunct or have not commenced production despite the lapse of several years since their registration. Thirdly, in the absence of compulsory registration, several functioning industrial units which could be assisted by the SFCs have not been brought on the records of the Directorates of Industries. We understand that the Government of India considered the question of compulsory registration some time back but did not appear to favour it. It might perhaps be useful for all lending agencies (commercial and co-operative banks and the SFCs) to persuade all small-scale applicants for loans to register themselves with the Directorate, although

Registration of units

this need not be made a condition for giving loans. The Ministry of Industrial Development, through a system of grants to the State Governments, organised in 1969-70 and also in 1970-71 surveys in all the States for preparing up-to-date lists of functioning small industrial units in the non-corporate sector. These are expected to be ready shortly for most of the States. These would provide bench mark data and also facilitate direct contacts of units not receiving assistance and the SFCs may make arrangements to obtain the particulars of small units from the respective Economic and Statistical Departments of the State Governments. For the time being, however, as the SFCs had granted up to 31 March 1969 only 4701 loans to small-scale units against over 1.70 lakhs units registered with the Directorates of Industries as on that date, there seems to be considerable scope for them to expand their assistance to this sector even within the existing system of registration. While registration of as many units as possible will help, we are of the opinion that there is no short-cut to the problems of canvassing for business except by the SFCs organising periodical surveys and/or seminars at selected growth centres in every district and arranging for personal contacts periodically with all existing and potential entrepreneurs. Another point which requires to be emphasised here is that commercial banks, through a wide network of their branches, have been facilitated to contact and assist a comparatively large number of units and it would help SFCs if they could also branch out; this has been commented upon elsewhere in the report.

Widening the scope of activities of SFCs

35. Industrialisation entails not merely the setting up of factories (installation of plant and machinery and deployment of labour for manufacturing products, components, etc.) but also organising a complex of ancillary activities for the transport of raw materials from the farm to the factory and again the flow of goods from the factory to the consumers, the servicing and maintenance of machinery for production and transport and the storage, marketing and sale of goods. Further, economic activity related to the process of industrialisation is to be interpreted, apart from processing, manufacturing and preservation, in terms of other functions, namely, the provision of infra-structure facilities such as the establishment of industrial areas and estates with provision of water, power and drainage, the provision of consultancy services for preparation of feasibility and project studies, etc. The SFCs are to be equipped to assist all the activities covering the process of industrialisation. It will thus be in keeping with the current trend of industrial development if the scope of the term "industrial concern" is widened so as to include some of the essential activities set out above. Most of these activities possess a large employment potential and involve the use of sophisticated machinery and equipment calling for some expertise/technical knowledge. A considerable amount of investment is needed for acquiring the requisite plant and machinery. Development banks in some foreign countries (Japan and Canada) provide assistance not only to industrial concerns but also to servicing units besides those engaged in trad-

ing, building construction and other activities. In the circumstances, for speedy industrialisation of the States, it would be necessary for the SFCs to extend financial assistance to the following lines of activity, besides those already covered at present, namely, concerns engaged in—

(i) maintenance, repairing and servicing of machinery of any type used for production, vehicles, vessels, motor boats, trawlers, tractors, pump sets, tube-wells, boilers, electric motors, air-conditioning and refrigeration equipment, road rollers and other road repairing equipment, radio receivers, electrical sound systems and different kinds of electrical equipment, cine projectors and photographic equipment and marine diesel engines;

(ii) assembling, repairing or packing, with the aid of machinery or power, of articles for maintenance, sale, transport or disposal;

(iii) maintenance of shore facilities for fishing; and

(iv) providing special or technical knowledge or other services for promoting industrial growth by designing machinery, plant, process of manufacture or the like or by supervising or otherwise assisting industrial projects (such concerns need assistance for acquiring machinery and equipment and preparing and maintaining prototypes).

36. We understand that the Reserve Bank has received requests from time to time for extending the scope of SFCs' assistance to production of cinema films and construction of cinema theatres, setting up of nursing homes, clinics and private hospitals and for rendering assistance to professionals like dentists and other medical practioners, to units providing services such as power laundries, advertising agencies, etc. Some of the members of this Group also expressed themselves in favour of SFCs assisting these activities, particularly production and exhibition of cinema films.

Assistance to specific lines

37. As regards production of cinema films, the SFCs are not appropriate agencies for assisting this activity. The technique for assessing, sanctioning, disbursing as well as supervising the loans which may be extended for production of films is highly specialised and calls for a knowledge not only of the technical process of film production but also of the appropriate themes as subjects for the films. The market for films is much more difficult to assess than that for industrial products; award-winning films, we understand, have often proved commercial failures. In the circumstances, this activity seems to be beset with more than a reasonable degree of risk. Moreover, various types of pressures, not always based on business considerations, are also likely to hinder an objective assessment of proposals in this regard. In the circumstances, we are of the view that the SFCs, whose reserves position is none

too comfortable, should not stake their funds in film production. However, they may render assistance for setting up film studios which may be leased or rented to producers or used by the owners for production of pictures. No assistance should, however, be rendered for production of films even by the owners of the studios.

38. As regards assistance for construction of cinema theatres it has been argued that theatres provide the necessary recreational facilities to industrial labour, that they provide employment to a large number of people, that they are essentially adjuncts to the film industry and that as such they deserve assistance from term lending institutions like SFCs. As, however, they do not produce "wealth", or involve **"value added"**, the bulk of their investments is in buildings and building construction other than for industrial purposes is not being considered suitable for assistance by SFCs, we do not consider that construction of cinema theatres should be brought within the scope of the term "industrial concern" in Section 2(c) of the SFCs Act.

39. As the limited resources of SFCs are to be employed for the comparatively more urgent and essential activities, we do not consider it necessary for them to finance medical units and service units like laundering and advertising.

40. In the light of the above paragraphs an amendment to Section 2(c) of the SFCs Act has been suggested at item 1 of Appendix X.

The need for co-operation between SFCs and banks and solutions for co-ordinated action

41. Widening of the scope of the term "industrial concern" will not by itself increase the business of the SFCs. Since introduction of Social Control measures for commercial banks, the banks have stepped up their assistance to small scale industrial concerns not only for their working capital requirements, but also for block capital. As several SFCs had complained that the commercial banks were encroaching upon their business, the matter was discussed at the 14th Conference of SFCs' representatives in a special session at which representatives of the major commercial banks were also present. It was felt that taking into account the requirement for modernisation and expansion of existing units and the needs of new units, there was a large scope for participation arrangements between banks and SFCs in the financing of individual projects. It was expected that following the discussions at the Conference, the banks and the SFCs would arrive at an informal agreement among themselves so that some co-ordination (such as in appraisal of loan applications, inspection of borrowing units, in the matter of reviving and/or rehabilitating units in distress, etc.) would be achieved in their assistance to small industries. However, not much headway appears to have been made in this regard. On the other hand, some SFCs appear to have a feeling that SFCs might not be able to stand competition from commercial banks which have

larger resources, a wide network of branches and close contacts with the borrowers and the SFCs, in course of time, may lose their usefulness.

42. In this connection, some of the SFCs have also reported that —

(i) some loans granted by the SFCs have been repaid prematurely out of advances made available to the borrowers by commercial banks;

(ii) when proposals for loans were under consideration of SFCs and they had already incurred some expenditure for the assessment of the feasibility of the project, a commercial bank had intervened and offered the requisite amount of credit, thereby rendering the efforts and expenditure of the SFCs infructuous;

(iii) some loans have been granted by banks after an SFC has taken a view on the loan applications and has communicated the terms and conditions of the loan to the borrowers concerned; and

(iv) industrial concerns requiring term loans as well as working capital were discouraged from approaching SFCs for the term loan requirements by threat of denial of facilities for working capital by the commercial banks.

In the absence of full details of the cases, it was not possible for the Working Group to go into the merits of these allegations. In any case, in view of the suggestion that is being made later in this report for close co-ordination and participation between SFCs and commercial banks, which suggestion, the Working Group sincerely hope, will be accepted bv all concerned and implemented in the proper spirit, the controversy may be mere academic and need not be gone into now.

43. It may be recalled here that in June 1970, the Reserve Bank had requested the Co-ordination Committee of Public Sector Banks to examine the feasibility of commercial banks passing on their term lending business in relation to small and medium scale industries to SFCs and for evolving suitable participation arrangements with them for the purpose. The Committee considered the Reserve Bank's request and came to the conclusion that it would not be desirable for the entire term lending business of the medium and small-scale industries to be confined to the SFCs only. It also felt that participation arrangement between the commercial banks and SFCs might not be necessary except in specific circumstances in which an individual commercial bank might find it appropriate. The reasons on which the Committee based its views are given in Appendix XI.

44. While we ourselves are of the opinion that it will not be feasible to confine the entire term lending business to SFCs in view of the magnitude of assistance to the small-scale industries envisaged in chapter III of this report, we feel that there is a case for larger co-ordination and participation between SFCs and commercial banks. Since the discussion of this item at the first meeting of the Group, the State Bank of India has indicated its willingness to consider the feasibility of passing on its term loan business to the SFCs in future provided the industrial units concerned are agreeable to the arrangement. We also understand that the Maharashtra SFC is negotiating for an arrangement with the Bank of Maharashtra by which applications for term loans may be received in any of the offices of the bank or the SFC, processed and loan sanctioned and disbursed by the receiving institution. The SFC and the bank would participate in the loan in the ratio of 75:25. The arrangement is also intended to ensure that the benefit of the summary proceedings available to the SFC under the SFCs Act will accrue to the bank as well. The Gujarat and Haryana SFCs have also entered into similar arrangements with certain banks. We would suggest that other SFCs might also explore the scope for entering into similar working arrangements with such modifications as may be necessary with all major banks operating in their respective territories. If the arrangement materialises, the SFCs will have ample scope for business. We expect that the SBI Group, which controls a sizeable share of the banking activity in the country, would also enter into this field, in particular in States where the SFCs are in need of a faster rate of growth like Assam, Bihar, Jammu & Kashmir, Madhya Pradesh, Orissa and Rajasthan.

45. We are of the view that these arrangements are in the mutual interests of major commercial banks and the SFCs. Now that the avenues of lending have been widened for commercial banks, they may not find it practicable to meet the entire demands for short term as well as term requirements of small industries out of their own resources. The credit/deposit ratio of all scheduled commercial banks stood at 77.5% as on 4 September 1970 as compared with 73.1% on 5 September 1969. Bank credit has increased during the last three years at a faster pace than deposits as may be seen from the following table :—

All Scheduled Commercial Banks

(Rs. in crores)

During the financial year	Increase in deposits	Deposits available for financing credit after providing for 28% of deposits for the purpose of statutory liquidity ratio	Increase in bank credit (including term lons)	Variation of (4) over (3)
(1)	(2)	(3)	(4)	(5)
		Rs.	Rs.	Rs.
		310	339	+ 29
		347	336	+ 16
		497	574	+ 77

The requirements of credit in excess of available deposits are met through borrowings from the Reserve Bank against securities or bills or by sale of investments. Within this overall ratio, the position of individual banks would vary widely, some having greater liquidity than others. Nevertheless, so long as credit extension by the commercial banks is not adequately matched by deposits (adjusted for liquidity requirements) the banks could not meet the term requirements of industries without financial assistance temporarily by the Reserve Bank and facilities of refinance by the IDBI. In the circumstances, with one or two exceptions, it would be advantageous for the major banks to leave a large share of term lending to small and medium industries to the SFCs by entering into appropriate arrangements with them, which could ensure a co-ordinated approach in meeting the credit requirements of small industries. Where a bank's credit/deposit ratio is on the high side and it has also granted sizeable term loans to small and medium industries without entering into participation arrangements with SFCs, the Reserve Bank may consider the question of advising it to evolve suitable arrangements.

Participation arrangements between credit institutions in respect of term loans

46. At the Fourteenth Conference of SFCs' representatives, Dr. R. K. Hazari, Deputy Governor, Reserve Bank, referred to a form of participation between credit institutions by the adoption of a system of bills and notes of different maturities. The sugestion has several advantages in it. The first institution which may receive the application for credit may appraise it, sanction and disburse the amount. If the loans are converted into bills of varying maturities, the shorter maturities could be transferred to banks and the longer ones kept by the SFCs. The first institution which disburses the loan could act as an agent for the other credit institutions holding the bills and supervise and service the advance. This would no doubt involve a radical change in the mechanism of lending at present in vogue. It is beyond the scope of our Working Group to go into the details of the changes to be made in the mechanism. We understand that this subject is to be examined by another Working Group set up by the Reserve Bank. Assuming that the introduction of the bills system is agreed to in principle, the SFCs Act may require an amendment in order to enable the SFCs to buy, discount or rediscount bills of exchange. A suitable amendment has accordingly been suggested, vide item 21 of Appendix X.

SFCs to be empowered to issue counter guarantees in favour of scheduled banks for guaranteeing deferred payments

47. An area where there is scope for co-operation between commercial banks and SFCs is in the field of guarantees. In terms of Section 25(1) (a) (ii) of the SFCs Act, an SFC is authorised to guarantee only loans raised by industrial concerns from scheduled banks or State co-operative banks. There were instances where borrowers of SFCs had acquired machinery, indigenous as well as foreign, against deferred payments guarantee provided by scheduled banks. In some of these instances, as the existing fixed assets of the industrial concerns had been mortgaged to the

SFCs, the scheduled banks concerned needed either guarantees from the SFCs or pari passu charge on the fixed assets of the concerns. As the SFCs could not issue guarantees to banks for extending this credit facility, the concerns experienced difficulties in obtaining deferred payments guarantees from banks. In order to obviate hardships to industrial concerns in similar circumstances and in view of the increasing need for SFCs to provide guarantees to banks where they offer deferred payments guarantee facilities covering purchase of capital goods in India or their import from abroad, we recommend that the SFCs may be authorised to issue guarantees in favour of scheduled banks or State co-operative banks in respect of not only loans but also other credit facilities, especially deferred payments guarantees given by the banks for acquisition of plant and machinery indigenously or from abroad. A suggestion has been made in this connection that by omitting the words "within India" occurring in Section 25(1)(b) of the Act, the same purpose could be achieved. Though it may be so, we feel that such an amendment would have a wider implication, viz., that an SFC could give deferred payments guarantees not only to banks in India but also banks and manufacturers abroad. This would, in turn, involve the SFC in foreign exchange transactions which it is not at present authorised to do. It does not also appear to be prudent to allow the SFCs to undertake such business, at least for the present. The facility for SFCs to extend counter-guarantees to banks is being provided by a proposal to amend Section 25(1) of the SFCs Act for the purpose envisaged above (vide item 20 of Appendix X).

SFCs to issue guarantees in favour of ICICI

48. The Industrial Credit and Investment Corporation of India Ltd. (ICICI) has recently introduced a scheme of assistance to small-scale industries to enable them to import machinery from abroad. The ICICI is prepared to extend foreign exchange credit to units against guarantee by the SFCs or a pari passu charge on the assets of the concerns. In the experience of some SFCs, the creation of a pari passu charge is not easy. In order to be of effective assistance to small and medium industries, it is felt that the SFCs should be empowered to issue guarantees in favour of ICICI. A suitable amendment for this purpose to Section 25(1)(a)(ii) of the SFCs Act has, therefore, been suggested at item 19 of Appendix X.

Need for capital participation by SFCs, subject to certain norms

49. Another field for expansion of business by SFCs is capital participation with small and medium-scale units. In some States at present this function is discharged by the State Industrial Development Corporation. However, being essentially a financial operation, it would be more appropriate for the SFCs to undertake this business in so far as it relates to small and medium sized units. In terms of the SFCs Act, an SFC is authorised to underwrite the issue of stock, shares, bonds or debentures by an industrial concern and to retain as part of its assets the stock, shares, etc. of industrial concerns which the SFC may have to take in fulfilment of its underwriting obligations. It is also authorised to convert debentures subscribed to

or loans given to industrial concerns into stock or shares of the concerns. Some of the SFCs have subscribed to the shares of a few industrial concerns through underwriting operations. TIIC has also made direct subscriptions to the shares of some companies. No SFC, however, seems to have taken up shares by conversion of loans and debentures. The experience of each SFC with regard to its shareholdings is given in Appendix V.

50. There has been a growing demand that the SFCs should enter the business of subscribing to the capital of small-scale industrial concerns on a larger scale than hitherto. This demand has gained much urgency especially as a large number of technically qualified persons (in engineering, science, etc.) who are not absorbed in existing enterprises are to be attracted to the small industries sector; those who are serving in existing concerns but wish to start on their own after they have gained enough experience are also to be helped. If they propose to set up enterprises in the form of proprietary or partnership organisation, the only way by which a financial institution can help them is by extending unsecured loans. In fact, the entrepreneurs' schemes of several commercial banks envisage advances which, at the initial stage, would be secured only partly and in a few deserving cases would be fully unsecured. The need for assistance of this nature arises mainly because the entrepreneurs could bring in a sum to meet only a part of the project cost. which does not cover even preliminary and pre-production expenses. The Managing Director of Maharashtra SFC is in favour of enabling the SFCs to extend to a limited extent unsecured loans to units which are owned by technically qualified persons and which also incur sizeable developmental expenditure in bringing to commercial production know-how/processes discovered by them. It was suggested that the objective could be accomplished by substituting the word "reasonably" for the word "sufficiently" in sub-section (2) of Section 25 of the SFCs Act. However, we are of the view that a basic change of this nature in the sanction of unsecured loans in certain contingencies may lead to undue pressures on and embarrassing situations to the SFCs. In cases where an engineer or a technically qualified person has just enough resources to meet the initial pre-construction expenses and margin for working capital, SFCs may grant loans with very low margin, say, at 5% to 10% on the value of fixed assets and postpone the collection of interest accruing on the loans during the first two or three years, i.e., till such time as the borrowing concerns are able to make satisfactory gross profit. The refinance scheme of IDBI could also be modified to suit instances of such nature. (At present IDBI extends this facility in respect of loans to backward areas).

51. With regard to assistance by SFCs to private companies, it may be noted that in terms of Section 3(1)(iii) of the Companies Act, 1956 a private company is one which by its articles restricts the right to transfer its shares, limits the number of its members to 50 and prohibits any invitation to the public to subscribe to its shares or debentures. In view of the restricted transfer-

— (i) In Private Companies

ability of its shares, it may not be prudent for an SFC to subscribe to the equity shares of a private company. If the SFC were to subscribe to the equity shares of a private company, it will, in view of the absence of a market, experience difficulty at a future date in finding a buyer who is willing to take them at a reasonable price. A private company can, however, issue preference shares which are redeemable after a specified number of years. In terms of Section 80 of the Companies Act, preference shares may be redeemed only out of the profits of the company which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purpose of redemption. The statute does not permit the redemption of preference shares through the proceeds of a loan. It may be necessary to provide for two stages in the initial period of a company's working, viz., (i) a gestation period which may extend from two to three years; and (ii) a further period of about two or three years after commencement of commercial production to attain capacity production and earn profits. These two stages will together require about five years. As the company may not make any profit during this period, it will not be in a position to pay dividend on the shares. Further, if the dividend is kept at market rate or near market rate, it may prove to be an undue burden on the company. For example, if the rate is 9½%, the company will have to earn more than 20% on the preference capital. For this reason, the rate of dividend on the cumulative preference shares may have to be kept at a nominal level, say, two or three per cent. The SFCs may not be in a position to make investments at such uneconomic rates. It has been suggested that after the initial period of five years, the shares could be converted into equity capital. This may be possible provided the company at that stage of its development is agreeable to such a course and has paid the entire arrears of preference dividend. If the company has not fared well, it will not be in a position to redeem the shares and the statute does not provide any remedy to the shareholders. In such circumstances, the company may perhaps be willing to convert the shares into equity. But that does not place the SFC in a more advantageous position in realising its investment. If the company fares well, it has the option to redeem the shares or to convert them into equity. If it prefers the former course, in view of the nominal rate of dividend on the shares, the SFC probably will have no choice except to accept the amount paid to it for redemption of the shares.

52. When an SFC subscribes to shares it assumes the risk in the business. It has no preferential right over the creditors even though the amount given by the SFC might have been utilised for building up the assets of the company. Considering all these aspects it is not at all advantageous for the SFC to subscribe to shares of a private company. However, viewing the problem from the company's point of view, it has the following advantages :—

(i) The company may not be in a position to offer any security for borrowing facilities. As the SFCs are precluded from

making unsecured advances and we do not consider it desirable to enable them to do so, the only way they can help such a unit is by subscribing to its share capital.

(ii) By providing capital, the equity base of the company would be broadened and the company will thereby qualify itself to borrow a larger sum of money from other sources (in view of the improvement in its debt-equity ratio).

In view of the distinct advantages to the company and as it is the object of SFCs to promote industrial development, we suggest that (i) where a private company has or is likely to have sufficient fixed assets to offer as security, loans alone may be provided. The loans may carry either no interest during the first two or three years and slightly higher than normal rate during the later years, or a progressively increasing rate, for example, 2% in the first year, 3% in the second, 5% in the third, 7% in the fourth, 9% in the fifth, etc. depending on the estimated capacity of the company; and (ii) where the company has potentialities for growth but the promoters do not have sufficient funds for the initial capital, the SFC might subscribe to redeemable cumulative preference shares which may have a redemption period of five years. As it would have started making profits only at this stage, it may not be possible to redeem the shares except through further issue of capital. The SFCs may at this stage ask for a further issue of preference shares in lieu of the original shares, the subsequent issue carrying a higher rate of interest. If the SFC feels that the company has prospered substantially and there are reasonable prospects of finding buyers for its equity share, the SFC may ask for equity shares instead of preference shares. The equity shares may thereafter be disposed of at a premium.

— (ii) **In Public Companies**

53. The SFCs may subscribe both to equity capital as well as preference capital of a public company. The extent of capital participation in any company (private or public) should bear a reasonable proportion to the promoter's contribution and should not ordinarily exceed it. Besides, in all such cases, in addition to the equity participation, there should be a larger component of loan assistance. The ratio of equity to loan assistance may vary from case to case but normally it may be advantageous to adhere to a ratio of 1:4. In other words, equity participation may not exceed 20% of the overall assistance by the SFC to the company or 30% of the company's paid-up capital or 30% of the paid-up capital and reserves of the SFC, whichever is lowest. An appropriate amendment to the SFCs Act has been suggested at item 26 of Appendix X.

54. If the SFCs are to undertake financial assistance to industrial units in the form of loans at less than market rates of interest or participation in preference or equity shares, they should have access to funds on

which they will not be liable to pay either interest or dividend for a few years, say, five to seven years. Considering the importance attached to this form of assistance, for which companies have been set up under special statute in the U.S.A. and other advanced countries, a way has to be found to facilitate the SFCs undertaking this promotional assistance.

55. In the U.S.A., Small Business Investment Companies have been set up under a special statute; they supply venture capital as well as long term finance to small business concerns. The capital of these companies is subscribed to by small groups of local private investors; a few of them are partially or wholly owned by commercial banks, though at present there is a statutory restriction on investments a national bank can make in the shares of such companies. By a judicious mixing of capital participation and term financing, these companies function on a commercial basis, providing assistance to companies and at the same time ensuring a handsome profit for themselves. The Small Business Administration assists these companies by providing them funds at market rate up to a prescribed multiple of their paid-up capital.

56. In India, the scope for operations of small investment companies on the U.S. model is restricted, especially since they have to function under the sponsorship of local and regional industrial and business interests. We have considered the appropriate machinery in the Indian context and feel that the SFCs should be the agency through which these developmental activities should be undertaken, provided they are simultaneously given adequate capital and loan resources. We suggest that for this purpose SFCs may be allowed to create a special class of capital, bearing no minimum obligation regarding payment of dividend, to be contributed entirely by the State Governments and the Reserve Bank/IDBI in agreed proportions. Certain other aspects of the special capital are discussed in paragraphs 82 to 84 below.

57. It may take some time for the State Governments to make up their minds about the special capital referred to above. In the meantime, some SFCs have already entered this field and it is in the fitness of things that more SFCs take to this business in a larger measure in order to be of significant assistance to the small-scale and medium-scale industries. However, it is necessary to ensure that the business is done subject to reasonable limits. It might be prudent for each SFC to restrict investment in shares in each year to the amount of special capital which it might be able to raise and its total of outstanding portfolio of share investment should at no time exceed 15% of its outstanding loans and advances. Such a norm is adhered to by other institutions like ICICI in India and the Small Business Investment Companies in the U.S.A.

58. It is also necessary to prescribe an overall ceiling on the invest-

ment in shares and outstanding underwriting obligations in relation to the paid-up capital and reserves of an SFC. A norm equivalent to the amount of special capital which may be raised plus 50% of the normal paid-up capital and reserves is, in our opinion, fair and reasonable. We do not consider it necessary to specify this ceiling in the statute but the SFCs may adopt it as a working rule in their own interests. Where an SFC exceeds this ceiling, the State Government or the Reserve Bank may issue appropriate directives to it by virtue of their powers vested/proposed to be vested under the SFCs Act.

59. Our proposals in the above paragraphs envisage direct subscriptions by the SFCs to the shares of private and public companies. As the existing provisions in the statute do not provide for such direct subscription, an appropriate amendment for this purpose has been suggested at item 23 of Appendix X.

Need for establishing technical and counselling cells in each SFC

60. In order to carry out the developmental work envisaged in the foregoing paragraphs, as well as for effectively handling the rising volume of their conventional business, the SFCs should build up at least in their head offices an appropriate machinery for financial and technical appraisal of projects and for advising assisted units on their problems relating to production techniques, maintenance, accounting, taxation, procurement of raw materials and marketing.

Need for wider districts coverage

61. We have discussed in the previous paragraphs the need for functional expansion of the activities of SFCs. We now propose to treat the need as well as the scope for widening their coverage geographically. A statement showing the number of districts in each State, the number of districts where at least one loan has been sanctioned by the SFC and the districts accounting for more than 60% of total sanctions by amount and by number of applications is given in Appendix XII. It will be seen that there are a number of districts in several States which have not yet been served by the SFCs. In order to achieve a more balanced territorial distribution of SFCs' assistance and also to ensure a reasonable coverage of all the districts, several measures have been taken by the State Governments and the IDBI in recent times. It is necessary that the SFCs also devise means of supplementing the efforts of the State Governments and the IDBI. The steps taken by some of the SFCs to expand their business and the results achieved by them are given in Appendix XIII. We suggest that the other SFCs may in the light of the material furnished in this Appendix chalk out suitable programmes for implementation in future.

62. One method of increasing the business might be for each SFC to establish a contact point in each region comprising a group of

contiguous districts, if not in each district. Even though arrangements may be evolved with the commercial banks for participation in loans as well as for entrusting them with the work of supervision of SFCs' loans through their branches, it is felt that each SFC, as far as possible, should aim at having at least one office (a branch or a sub-office or one-man office) in each region.

Need for a scheme of subsidy for meeting the cost of branch expansion

63. While the larger SFCs can afford the additional expenses of opening branches, others in the relatively under-developed States, which suffer from a low level of business and/or a high percentage of sticky advances may not bear this additional burden. There is an urgent need for SFCs in the latter category to undertake promotional work on a regional, if not on a district-wise, basis if only to stimulate industrial activity in the less developed areas. There is a vicious circle governing their activities in that a low volume of business leads to a small profit and the consequent inability to incur the expenses for branch expansion. This could be broken effectively only if the State Government or Reserve Bank can formulate a scheme of subsidy, for an initial period of three years, to meet the cost of the branch expansion programme of the SFCs deserving support in this regard.

District-wise surveys of industrial and entrepreneurial potential

64. The opening of branches by SFCs is closely bound up with the potential business in the districts. The SFC apart from locating existing industrial units for rendering financial assistance, has also to identify the potential for new industries and locate entrepreneurs willing to exploit the potential. Industrial surveys which are to be jointly conducted by the Reserve Bank, IDBI, ICICI and IFCI in certain developing states might cover not only the establishment of large and medium industries but also small industries. In this task, the Reserve Bank may have to collaborate with the SISI and/or the State Directorates of Industries. In addition, arrangements should be made whereby, where necessary, individual industry profiles or project reports should be prepared and furnished to prospective entrepreneurs.

65. In order to meet the demand by the Federation of Associations of Small Industries that a separate all-India institution solely catering to small industries' capital requirements should be set up, it is suggested that the responsibility for formulating the policy measures governing the growth of small industries should be fixed on the Industrial Finance Department of the Reserve Bank.

CHAPTER V

The statutory framework of SFCs' working — the scope for its modification

66. In the last chapter we had discussed the scope for widening, functionally and geographically, the activities of the SFCs. In this chapter we propose to discuss the existing overall statutory framework within which the SFCs operate at present and the need or otherwise for modifying it as regards certain features, such as the norms in regard to aggregate liabilities of an SFC and the maximum accommodation that it can provide to a single borrower. On the financial side, the issues in relation to raising of capital and other forms of resources are also examined.

(a) General

The norm governing the ceiling on aggregate liabilities

67. According to Section 7(5) of the SFCs Act, for any SFC the total amount of bonds and debentures issued and outstanding, the amount borrowed from the Reserve Bank against ad hoc bonds, from the State Government, the IDBI, scheduled commercial banks and State Co-operative banks together with the contingent liabilities on account of loan and deferred payments guarantees given and underwriting agreements entered into should not at any time exceed ten times the paid-up capital and reserves of the SFC. The liabilities outside the purview of this ceiling are (1) short-term borrowings from the Reserve Bank and (2) deposits. The short-term borrowings are generally against Government and other Trustee securities and are negligible. The deposits should not at any time exceed the paid-up capital of an SFC. Thus, the statute envisages that the total liabilities (including contingent liabilities and deposits) should not be more than eleven times the owned funds of the SFC. Several SFCs have suggested that the existing ceiling limit on borrowings and contingent liabilities should be raised from ten times to fifteen times the paid-up capital and reserves. The fact that raising resources through borrowings is more advantageous than raising capital (vide paragraph 81 below) seems to be the main argument in support of this demand.

68. The existing ceiling on total liabilities (including contingent liabilites) has not created any problem for any SFC so far. The aggregate borrowings and contingent liabilities of the SFCs (excluding Himachal Pradesh) as on 31 March 1970 ranged between 11% and 75% of the permitted level. Thus, the question of raising the ceiling limit beyond ten times is only of academic interest.

69. An argument adduced in favour of relaxing the ceiling is that in the case of IFCI which also transacts more or less the same types of

business as the SFCs, albeit on a larger scale, the ceiling of ten times the paid-up capital and reserves applies only to the direct liabilities and not to the contingent liabilities. Besides, it is to be recognised that the possibility of the entire contingent liabilities (other than underwriting) devolving as direct liabilities on the SFCs at any time is rather remote. In terms of Section 25(3) of the SFCs Act, the total contingent liabilities of an SFC on account of loan and deferred payments guarantees and underwriting obligations should not normally exceed twice the paid-up capital and reserves of the SFC. We have also suggested in paragraph 77 below a ceiling limit on individual transactions covering guarantee and underwriting commitments to a single borrower. In the circumstances, we are of the view that it would be fair to exclude the contingent liabilities from the purview of the ceiling prescribed in Section 7(5) of the SFCs Act. An amendment to Section 7(5) for this purpose has been suggested at item 9 of Appendix X.

70. The next question which is required to be discussed is the allocation as between the various types of liabilities within the ceiling of ten times the paid-up capital and reserves. The main items are (i) bonds, (ii) borrowings from the Reserve Bank against ad hoc bonds, to the extent of 90% of the paid-up capital (vide recommendation made in paragraph 88 below), (iii) borrowings from IDBI, scheduled commercial banks and State Co-operative banks (refinance from IDBI alone is significant for our purpose) and (iv) borrowings from the State Government which, for the reasons stated in paragraph 100 below, may not be of a significant magnitude. The borrowings from the Reserve Bank (against securities and ad hoc bonds), the State Government and commercial and co-operative banks may absorb at the most twice the paid-up capital and reserves. The residual part estimated roughly at eight times may be allocated between bonds and refinance from IDBI in the ratio of 5 : 3 taking into account on the one hand the relatively lower cost of refinance from IDBI and, on the other hand, the fact that IDBI refinance is generally the outcome of deficit finance as against the mobilisation of the community's savings entailed in a bond issue. It is felt that this ratio, which may be relaxed to 5 : 4 in deserving cases, in special circumstances, for short periods, (subject to the limit on total liabilities at ten times the paid-up capital and reserves) would ensure that the SFCs absorb from the market periodically a part of the savings of the community and rely on the funds provided by the IDBI only to a lesser extent. We would also urge in this connection that this ratio be observed not merely for the SFCs which are on the verge of reaching the ceiling limit on their borrowings but also for other SFCs which have a long way to go to reach this ceiling.

71. In terms of Section 26 of the SFCs Act, the aggregate amount of loan guarantees, loans or advances and subscriptions to debentures of

an industrial concern is subject to a limit of — (i) Rs. 20 lakhs, if the concern is a public limited company or a co-operative society and (ii) Rs. 10 lakhs in any other case. The Act does not envisage any restriction on the extent of deferred payment guarantees and underwriting obligations which may be entered into by an SFC with an individual concern.

Limit of accommodation

72. Several SFCs have urged the need for raising this ceiling. The Maharashtra SFC, in particular, has suggested the raising of the ceiling limit to Rs. 40 lakhs and Rs. 20 lakhs respectively. Their main arguments in this respect are that following the devaluation of the rupee in 1966, the cost of plant and machinery, particularly imported plant and machinery, has gone up considerably. The value of land and cost of construction of buildings have also risen sharply in recent years. As a result, the demand for credit from an industrial unit for acquisition of fixed assets and floating assets has to be pitched up higher than in the early fifties. Hence, the ceiling limit appropriate at the time of the passage of the SFCs Act in 1951 appears to be inadequate in the early seventies to meet the requirements for fixed assets of small and medium-scale concerns.

73. It has also been argued that with the progressive reduction in the minimum amount of loans which may be sanctioned, the SFCs are now handling a larger number of loans for comparatively small amounts. The cost of appraisal of a proposal and servicing the loan is almost identical for a small as well as a large loan. This has resulted in reducing the overall margin of profit to the SFCs a part of which can be neutralised if the SFCs are allowed to make a few large advances.

74. These arguments, however, are not convincing. Imported items form only a small part of the fixed assets of a small-scale industrial concern. Even conceding that the financial requirements (both for imported components and indigenous assets) of some of the larger units in the medium-scale sector have gone up considerably since 1951, the upward swing in the cost has been experienced to an equal extent by the smaller units. As a result, the number of units eligible for financial assistance (SFCs do not generally entertain proposals for loans below Rs. 10,000 or Rs. 25,000 or even Rs. 50,000 in one or two States) from the SFCs should have increased. Besides, the quantum of assistance granted per unit has also gone up. The fact that the requirements of a few units may have increased beyond the statutory limits on SFCs' assistance has not, therefore, led to any reduction in the coverage of their business. On the other hand, the demand for an upward revision of the ceiling on individual advances overlooks the fact that SFCs have been set up mainly for assisting small and medium-scale industries, that their assistance so far to the small-scale sector has not measured up to its needs and that, as a result, proposals have been made from time to time by Associations of small industries and officers of the Development Commissioner for Small Scale Industries for setting up an institution for catering exclusively to the require-

ments of small-scale industries. Out of the total outstanding loans of all SFCs as at the end of March 1970, 77 per cent by number was given to this sector. But, by amount, the percentage was only 34. The IFCI and the ICICI which command larger resources are willing to take care of the requirements of the medium sized units apart from large units to an adequate extent. According to present indications both in relation to their present and prospective resources of men and money the SFCs may not be equipped to render adequate financial assistance to the entire small-scale sector. And so long as the genuine requirements of this priority sector could not be met, there was no point in providing a diversion of the limited resources of the SFCs to the medium sized industrial units.

75. As regards profitability of SFCs, it is felt that with turnover increasing from year to year even though the margin on individual transactions might be reduced, the overall profits would tend to be higher.

76. In the light of these considerations, we are of the view that there is no case at present for enhancing the existing ceiling limits on loans and advances to individual borrowers. However, out of about 7000 loans of the SFCs which were outstanding on 31 March 1970 about 5000 or more than 70% were granted to parties other than companies and co-operatives, i.e., proprietary, partnership and joint family concerns. An amount-wise classification of the loans is not available for some of the SFCs. On the basis of available data, the loans for amounts exceeding Rs. 5 lakhs constituted more than 10% of the total loans sanctioned during 1969-70 for at least six SFCs. It would thus appear that some of the loans given to proprietary and partnership concerns are for comparatively large amounts. In order to provide opportunities to the members of the public to associate themselves with the industrial development of the country and also to ensure a wider distribution of the ownership of capital of industrial concerns, the larger private firms should be induced to convert themselves into companies at least at the stage when they undertake expansion and/or when the outlay in a project is comparatively large, say, above Rs. 10 lakhs. Accordingly, we feel that the ceiling on SFCs' loans to private companies may be raised to Rs. 20 lakhs from the existing level of Rs. 10 lakhs; this would also induce proprietary and partnership concerns to convert themselves into private companies. An amendment for the purpose to Section 26 of the SFCs Act has been suggested at item 29 of Appendix X.

77. The absence of a limit on accommodation to a single borrower in the form of deferred payment guarantees and underwriting of shares has induced a few SFCs to enter into these transactions for comparatively large amounts. This tendency cannot be deemed as a healthy sign. In paragraph 58 we have suggested certain limits for underwriting of and direct subscriptions to shares of companies. We are of the view that this alone will not be sufficient and that a ceiling limit on all types of transactions with a single borrower should be prescribed in the statute. While

the ceiling on loans and loan guarantees may be kept at Rs. 20 lakhs for public and private companies and co-operative societies and Rs. 10 lakhs for others, a further limit up to 50% of these levels may be provided for where accommodation is extended to an industrial unit in the form of not only loans and loan guarantees but also deferred payment guarantees and underwriting agreements including capital participation. In other words, an SFC can provide accommodation in the forms of loans, loan guarantees and deferred payment guarantees and underwriting agreements and capital participation to the total extent of Rs. 30 lakhs in the case of a company or a co-operative society and Rs. 15 lakhs in the case of other types of concerns; within this limit, the loans and loan guarantees should not exceed Rs. 20 lakhs or Rs. 10 lakhs as the case may be, and the underwriting agreements and capital participation should be subject to the limits specified in paragraph 58. Where, however, the accommodation is in the form of deferred payment guarantee only or in combination with other types of accommodation referred to above, it may go up to Rs. 30 lakhs. An amendment to the SFCs Act for this purpose has been suggested at item 30 of Appendix X.

78. No ceiling is prescribed at present on the size of an industrial concern eligible for financial assistance from an SFC. In order to ensure that the SFCs confine their dealings to the small and medium-scale units in the lower brackets, a restriction of this nature seems to be called for. In view of the fact that the cost factor (both in terms of quantum and components) differs from time to time and from industry to industry, it is not considered desirable to prescribe any limit in the statute, which might make it rigid in its application. However, the Reserve Bank, by virtue of the powers proposed to be vested in it (vide paragraph 115 below) may issue appropriate instructions to the SFCs after taking into account all relevant factors.

(b) **Financial provisions in the SFCs Act**

Capital

79. The SFCs Act provides for the payment of a minimum guaranteed dividend on the shares of SFCs. The minimum guaranteed dividend ranges from 3% to 5% (the maximum dividend permitted under the Act). The following Table shows the minimum dividend payable by the Corporations.

Dividend	*Names of SFCs*
At 3%	Himachal Pradesh and Tamilnadu
At 3½%	Andhra Pradesh, Assam, Bihar, Gujarat, Kerala, Madhya Pradesh, Rajasthan, Uttar Pradesh and West Bengal.
At 4%	Mysore
Partly at 3½% and partly at 4%	Orissa
Partly at 5% and partly at a lower rate	Maharashtra, Delhi, Haryana, Jammu & Kashmir and Punjab.

In terms of Section 4 of the SFCs Act, the shares may be held by (a) State Governments, (b) Reserve Bank, (c) scheduled banks, LIC, other insurance companies, investment trusts, co-operative banks and other financial institutions and (d) other persons. The extent of shares which may be held by the last category of shareholders should not exceed 25% of the total. The State Governments and the Reserve Bank (including IDBI) accounted for 50% to 60% of the paid-up capital of eight SFCs and more than 60% in the remaining ten SFCs.

80. As already referred to in paragraph 11 above, the State Governments and the Reserve Bank alone are at present in a position to forego the dividends receivable by them for credit to the Special Reserve Funds of the SFCs. As the SFCs have not so far been able to build up adequate reserves, the issue is whether or not it would be desirable to make any changes in the categories of persons who are eligible to become shareholders of SFCs. By retaining the existing pattern, the SFCs will have some shareholders outside the State Government and RBI groups. These shareholders have been allowed representation on the Boards of Directors of SFCs. Our view is that the SFCs' Boards stand to gain by the association of the representatives of these classes of shareholders. Accordingly, no change is considered necessary in this respect. However, it appears anomalous that IDBI should be classed under 'other financial institutions' occurring in clause (c) of sub-Section (3) of Section 4 of the SFCs Act. We suggest that IDBI may be specifically mentioned in the same way as the State Government and the Reserve Bank in Sub-Section 3 of Section 4 of the Act, say, clause (bb). An amendment to implement this suggestion has been proposed at item 3 of Appendix X.

Need for private issues of capital at minimum dividend

81. As the current yield on State Government securities is about 5¾%, it is doubtful whether the SFCs will find a good response from institutional and other investors to the issue of their shares in future even if the shares carry the maximum permitted dividend at 5%. Apart from this aspect, an SFC has also to consider whether it is beneficial for it to raise resources in the form of capital or through borrowings. The statement given in Appendix XIV shows a comparison of the extent to which an SFC raising Rs. 10 lakhs will be able to strengthen its reserves if it raises the additional funds in the form of capital and through borrowings at various rates. It is evident from this table that raising resources through borrowing instead of by way of augmentation of capital is of advantage to the SFC. Even so, it is necessary for the SFCs to increase their capital in order to have a balanced debt-equity position and to be eligible to borrow larger funds (this is so because the SFCs are not allowed to borrow beyond a specified multiple of their paid-up capital). Even on issues of capital, in view of their inadequate reserves, it is necessary that the dividend liability of the SFCs on the shares they may issue in future is kept as

low as possible; they may carry only a comparatively low rate of dividend, say 3% or 3½%. This is one way of providing a cushion to an increase in the earnings of the SFCs so that they could transfer larger sums to their reserves. As institutional and private investors may not find this rate attractive, the shares will have to be offered as a private issue and may have to be subscribed to entirely by the State Governments and the Reserve Bank or the IDBI. This proposal has an additional merit inasmuch as the dividends accruing to the State Governments and the Reserve Bank (including IDBI, subject to acceptance of the suggestion made in paragraph 87 below) could be ploughed back by credit to the Special Reserve Fund under Section 35A of the SFCs Act.

82. As stated in paragraph 49 above, the SFCs will have to enter the field of capital participation of small and medium sized concerns to a larger extent than hitherto. Considering the long gestation period during which normally no return is received on this investment and the risks in transactions of this nature, it may not be prudent to borrow funds at market rates for this purpose. It is preferable to raise the required resources in the form of grants from State Governments or as dividend-free capital. The chances of obtaining grants from the Governments are rather slim, and, therefore, the SFCs will have to depend on capital for this purpose. This capital, as distinct from the dividend-bearing normal capital, will have to be of a special nature, the details of which are discussed below.

Contribution to special capital of SFCs by the State Government and the Reserve Bank/IDBI

83. This capital may be contributed by each State Government and the Reserve Bank (or the IDBI) on a 50:50 basis or in such proportion as may be agreed upon between the Reserve Bank/IDBI and the concerned State Government. The contributions may be made from year to year, relating them to the ability of the SFCs to utilise the funds within the year. This capital should not carry the fixed dividend obligation; when the Corporation starts getting a reasonable return on the investments made out of these funds or when the disposal of shares acquired by the SFC under this scheme at a premium, the dividend received and the profit on disposal of shares may be transferred to the special capital account itself as further contributions by the State Government and the Reserve Bank/IDBI on agreed proportions. No special provision for reimbursing the SFCs for their administrative expenses in connection with these transactions is necessary inasmuch as capital participation by the Reserve Bank/IDBI is to be a part of a package scheme of assistance to the industrial units, in which there would always be a larger component of interest bearing loan assistance.

84. Even if the raising of special dividend-free capital is agreed to in principle by the concerned Governments and the Reserve Bank, it will take some time for making the necessary amendments to the SFCs Act. Further,

the raising of the 'special capital' will also depend on several other factors such as the State Government being in a position to contribute to the capital, the ability of the SFC to absorb and utilise the amount for the purpose for which it is intended, etc. In the circumstances, it will be necessary for the SFCs to raise additional normal capital also on the lines set out earlier in paragraph 81.

85. A reference has been made to the liability of the SFCs to the State Governments for the subvention received for payment of the minimum guaranteed dividend on their share capital. Between 1953 and 1970 a total sum of Rs. 198 lakhs was received by the SFCs as subvention, out of which four SFCs have so far repaid a sum of Rs. 18 lakhs. The outstanding liability of the SFCs under this head thus stood at Rs. 180 lakhs as on 31 March 1970. This amount formed 28% of the total dividends paid by the SFCs. In addition, TIIC has a liability of Rs. 36 lakhs on account of dividends not received by the Tamilnadu Government. We understand that besides the four SFCs, referred to above, others also are examining the feasibility of discharging this liability. The twin obligations for (i) payment of a minimum dividend and (ii) repayment of the subvention liability have the effect of reducing the ability of the SFCs to build up reserves. The Working Group on SFCs appointed by the Reserve Bank in 1962, under the Chairmanship of Shri K. C. Mittra, had recommended that this liability should be written off by the State Governments but the recommendation does not seem to have been acted upon. As already stated, the SFCs are not at present in a position to repay this debt, except at the cost of their reserves, as it involves an outgo of cash and a consequent diminution of their internal resources. Even when they start repaying, they may do so in small instalments spread over a number of years. The resulting income to the State Government will be negligible, while the impact on the internal resources of SFCs may be significant. Considering the important role assigned to the SFCs in the development of the small and medium-scale industrial sector in the States, there is an obligation on the part of the State Governments to do whatever is possible for strengthening their financial position and making them viable institutions. We envisage a time, within the foreseeable future, when each SFC would be a strong entity, making enough profits not only for paying the minimum guaranteed dividend and adequately strengthening its reserves but also making over substantial amounts to the State Government as contemplated in Section 35(3) of the SFCs Act which is reproduced below for ready reference:—

"Notwithstanding anything contained in this section, no dividend paid under this section shall under any circumstances exceed the rate of five per cent per annum and if, in respect of any financial year after the reserve fund becomes equal to the share capital of the Financial Corporation, there is a surplus in the net profits after declaring a dividend at the rate specified in this sub-section, such surplus shall be paid to the State Government"

86. In the circumstances, the least that the State Governments can do is to allow the conversion of this liability into "special capital" bearing no minimum dividend obligation. It would be unfair to ask the Reserve Bank or the IDBI to make a matching cash contribution to the special capital raised in this manner (vide paragraph 83 for creating special capital). Though the special capital thus raised may not bring in any additional resources to the SFCs, it will result in two benefits to them: (i) the subvention liability will cease to be a charge on the future profits of SFCs, and (ii) the borrowing powers of the SFCs will be increased. An amendment to the SFCs Act to enable the SFCs to have a special capital on the lines indicated above has been suggested at item 5 of Appendix X.

Reserves

87. Since 1964, when the IDBI was set up, contributions to the share capital of SFCs are being made by the IDBI out of funds provided by the Reserve Bank from the National Industrial Credit (Long Term Operations) Fund. However, Section 35A of the SFCs Act permits contribution to the Special Reserve Fund of the SFCs only by the State Government and the Reserve Bank. An amendment of the Section is necessary if the IDBI were also to forego the dividend on the shares held by it for credit to the Special Reserve Fund of the SFCs. Some of the SFCs have already reached the ceiling of 10% of paid-up capital at present prescribed on the total amounts that may be credited to the Special Reserve Fund and a few more SFCs will reach this limit shortly. As the reserves require to be strengthened further, we suggest that the ceiling may be raised from 10% to 25% of paid-up capital of the SFC. The SFCs may be allowed to utilise the balance in the Fund towards expenses for developmental purposes approved by the Resrve Bank and the State Government. An amendment for these purposes has been suggested at item 39 of the Appendix X.

Borrowings from the Reserve Bank against ad hoc bonds

88. In terms of Section 7(2)(b) of the SFCs Act, an SFC is authorised to borrow money from the Reserve Bank repayable within a period not exceeding 18 months from the date of borrowing against ad hoc bonds issued by the SFC and guaranteed by the State Government. Such borrowings should not exceed 60% of the paid-up capital of the SFC. There is a similar provision in the Industrial Finance Corporation Act, 1948, but that Corporation is allowed to borrow against ad hoc bond only up to Rs. 3 crores as against its paid-up capital of Rs. 8.3 crores. The reasons for prescribing such a ceiling are mainly (i) such loans by the Reserve Bank should have a reasonable margin in the paid-up capital of the borrowing Corporation and (ii) the loans should not exceed the normal reasonable requirements of the Corporation. This facility is intended to be utilised as a stop-gap arrangement pending floatation of regular bonds in the market. It also helps the SFCs to operate on fine cash balances and saves them from the need to raise larger funds from the market than is necessary for their requirements over the immediately following few months.

If at the time of a bond issue an SFC has availed itself of this facility from the Reserve Bank to the full or nearly full extent, a part of the proceeds of the bond issue can be used to repay the debt to the Reserve Bank and the balance for meeting loan and other disbursements in the subsequent few months. If this facility is not available, the SFCs will have to enter the market for bond issues either more often than at present or for larger amounts each time, both courses being beset with difficulties and pecuniary loss for the SFCs. The Reserve Bank provides this accommodation at Bank Rate which is currently less than the market rate for bonds. In view of the distinctive advantages to the SFCs, there has been a general demand for enhancing the ceiling limit on this facility from 60% of the paid-up capital to 100% of the paid-up capital and reserves. In considering this request, it is not appropriate to take into account merely the marginal difference in the rate of interest. It may be noted that the SFCs are now encouraged to enter the market every year for bond issue. The amount of issue has also been progressively increasing from year to year, which reflects the rising magnitude of the operations of the SFCs. Thus, the Maharashtra SFC issued bonds for Rs. 100 lakhs, Rs. 175 lakhs and Rs. 250 lakhs in 1967, 1968 and 1969 respectively. The TIIC also issued bonds for Rs. 150 lakhs, Rs. 200 lakhs and Rs. 275 lakhs in 1966, 1968 and 1969 respectively. The Gujarat SFC which issued bonds for Rs. 100 lakhs in 1969 entered the market recently for Rs. 200 lakhs. The extent of accommodation against ad hoc bonds is thus not commensurate with the magnitude of the annual bond issues, at least for some of the SFCs. We, therefore, suggest that the existing ceiling at 60% of the paid-up capital may be raised to 90% of the paid-up capital.

Ad hoc bond to be substituted by an agreement between an SFC and Reserve Bank for the former's borrowing

89. Complaints have been made that SFCs experience certain practical difficulties in issuing the ad hoc bond each time after obtaining the State Government's consent for guarantee and the clearance by the State and Central Governments for the rate of interest on the bond. Apart from the practical difficulties, the procedure also involves delay. Further, some of the State Governments also levy a stamp duty on the bond (the stamp duty has, in fact, discouraged a few of the SFCs from availing themselves of this facility). We are of the view that there is scope for streamlining the procedure and that no SFC should have to bear stamp duty on the ad hoc bond. The State Government's guarantee should be automatic under the statute as in the case of deposits accepted by SFCs. In view of the ceiling limit on the extent of borrowings of SFCs and as they will be available at a time only for a limited period not exceeding 18 months, there is no possible ground for objection to this proposal from the State Governments. We, therefore, recommend that the Reserve Bank should extend this accommodation against an agreement executed by each SFC with the Reserve Bank instead of against an ad hoc

bond issued by each SFC required according to the present statutory provision. This change will automatically relieve the SFCs from the obligation to pay stamp duty on ad hoc bonds.

90. Some SFCs had made a plea that the period of this facility may be extended from 18 months to 36 months. Considering the purpose of this accommodation and the fact that the SFCs are free to enter the market every year and as the Reserve Bank generally extends only short term credit, we do not think that there is any justification for extending the period of Reserve Bank's accommodation.

91. An amendment to the SFCs Act for raising the ceiling limit on this accommodation, for dispensing with the ad hoc bond and for making the Government guarantee automatic has been suggested at item 7 of Appendix X.

Bonds

92. A table showing the total amount for which SFCs had proposed to issue bonds during the last three years and the amounts for which they were allowed to enter the market is set out below:

(Rupees in crores)

	Amount applied for by SFCs	Amount sanctioned to them by Reserve Bank
	Rs.	Rs.
1968-69	15.95	8.0
1969-70	12.25	10.50
1970-71	15.70	10.80

Each SFC's proposal is scrutinised by the Reserve Bank in relation to its current and prospective sources and uses of funds. It is allowed to enter the market only for the minimum sum considered necessary. In considering the SFCs' demands, the Bank has to take into account the requirements of the Central and State Governments, other Government agencies like Electricity Boards, as also the availability of funds in the market. Though the market conditions have been comfortable during the last two years, it cannot be taken for granted that similar conditions will continue to prevail in the market in the coming years. So far, the utilisation of other sources of funds by the SFCs has not been taken into account in a rigid manner; for example, SFCs have been allowed to float bonds even though they may not have availed themselves of the refinance facility from the IDBI and the ad hoc facility from the Reserve Bank adequately. As the IDBI generally takes up the residual of any bond issue not absorbed by the market, we consider that those SFCs which have not secured refinance from IDBI to

any significant extent should endeavour to avail themselves to the maximum these facilities from the IDBI before seeking to issue bonds in the market. We recommend that the Reserve Bank may take this factor into account before approving the bond issues of SFCs. If such a criterion is adopted, it is possible that some SFCs may not have to go to the market and their quota could well be allotted to others more deserving of support in this regard.

93. Certain objections have, however, been raised to this proposal. It has been pointed out that the non-utilisation of the ad hoc bond facility from the Reserve Bank and the refinance facility from the IDBI is due to certain procedural and other difficulties and not because of any unwillingness on the part of SFCs to utilise this source. The levy of stamp duty by the State Government on ad hoc bonds has the effect of increasing the cost of borrowing to an unremunerative level of 7% to 8% (as compared with the lending rates of 8% to 9%). As regards refinance facility, while the SFCs in the comparatively more developed States have been able to meet the requirements of IDBI, those in the less developed States have not been able to do so. The latter find it difficult to obtain the financial statements, cash flow estimates, etc. from the borrowers. As the period of the loans and the amount of instalments are fixed on estimates which sometimes do not materialise some of the borrowers find it difficult to adhere to the repayment schedules prescribed at the time of sanctioning the loans. In genuine cases of difficulty, the SFCs have been re-scheduling the repayments. However, they are required to repay the IDBI according to the original schedule. These factors inhibit the utilisation of the refinance facility by some SFCs to the same extent as the others.

94. If the recommendations made by us in paragraphs 88 and 89 above (regarding the ad hoc bond facility from the Reserve Bank) are accepted, there should be no difficulty for any SFC to avail itself of this facility liberally. As regards refinance from IDBI, we understand that the IDBI is prepared to accept repayments from SFCs on the basis of revised repayment schedules wherever revisions have been effected by them to meet genuine difficulties of the borrowers. Further, we expect that with increasing coordination between IDBI and the SFCs (vide paragraph 115 below) and the recent liberalisation by the IDBI in the standards of scrutiny of refinance proposals, there should be no difficulty for any SFC to utilise this facility to the maximum extent.

95. In view of the foregoing, we recommend that the Reserve Bank may take into account the utilisation of alternative avenues of raising resources while settling the annual market programme of the SFCs.

96. SFCs are at present allowed to issue bonds of 12-year maturity. This corresponds to the period of bonds issued by other Government agencies and suits the SFCs which make loans to industries generally repayable

over a period of 10-15 years. Of late, however, several SFCs have entered the field of financing road transport operators in a big way. The advances to this sector are repayable over a period of 3-4 years. It might, therefore, be advantageous to the SFCs if they are allowed to raise a part of their resources through issue of bonds of shorter maturity, say, 7 years. Such bonds will no doubt carry a lower rate of interest and ensure a lower cost of borrowing by SFCs although from the point of view of coupon rate, they may not be as attractive as 12-year bonds. Demand in the market for bonds of shorter maturity may be adequate to contribute to its successful floatation.

Refinance from IDBI

97. As pointed out in paragraph 16 above, the utilisation of refinance from IDBI has been extremely uneven. While some SFCs have not utilised this facility at all and a few others have had recourse to it only sparingly, a few SFCs have reached the maximum limit for this facility.

98. In order that the SFCs might utilise the refinance facility on a liberal scale, we suggest that (i) no commitment charge be levied by IDBI in respect of loans below Rs. 1 lakh (ii) where an application for refinance has to be rejected by IDBI, the reasons for the rejection, which are not at present disclosed to the SFCs, be made known to them so that they can avoid making similar loans in future (iii) the form of application, particularly for smaller amounts, be simplified and (iv) refinance of loans for amounts up to, say, Rs. 2 lakhs be made automatic subject to the SFCs accepting certain conditions for proper appraisal of the proposals and post-disbursement supervision over the borrowing concerns. The SFCs, for their part, may take steps to tone up their organisation in regard to appraisal techniques and methods and ensure compliance with IDBI's minimum requirements in connection with their refinance proposals.

99. It is understood that the IDBI generally allows refinance to each SFC so that the effective sanctions (gross sanctions less cancellations and repayments) do not exceed three times the paid-up capital and reserves of the SFC. By and large, the ceiling has not posed any problem for any SFC so far. In one or two cases where the limit was found to be too restrictive, the IDBI had relaxed it suitably. Even so, there has been a demand from the SFCs for relaxation of this norm generally and to make refinance available to them up to five times or more of the paid-up capital and reserves of an SFC. It may be noted that apart from the regulation of the aggregate borrowings and the contingent liabilities provided for in Section 7(5) of the SFCs Act, there is no specific statutory limit on the amount of refinance that may be obtained from IDBI. Therefore, the problem cannot be viewed in isolation from the overall ceiling for all types of liabilities. This has been discussed in paragraph 70 above. As stated therein, we feel that IDBI may sanction refinance normally up to three times the paid-up capital and reserves of an SFC. In special circumstances and for short periods this

facility may be allowed up to four times the paid-up capital and reserves of an SFC.

Borrowings from the State Governments

100. As stated in paragraph 18 above, seven SFCs have borrowed from their respective State Governments a total sum of Rs. 3.01 crores as on 31 March 1970. The terms of the loans and their purposes differ from case to case. Some State Governments have provided funds for specific developmental activity such as underwriting, whereas others have lent on a long term for the general business of the SFCs. It is possible that the State Governments may not be in a position to extend in future any sizeable financial assistance on a long term basis in view of the strain on the budgetary resources of almost all the Governments. In any case, we are of the view that when the Reserve Bank is closely associated with the working of the SFCs and not only gives advice in shaping their policies but also augments their resources, it is needless for the State Governments to extend financial asistance except as a residuary financier for extending purely short term funds in a situation where the Reserve Bank and the IDBI are not able to help in view of statutory limitations.

101. In terms of the SFCs Act at present, the SFCs may borrow money from the State Governments in consultation with the Reserve Bank on such terms and conditions as may be agreed upon. Though the Reserve Bank is at present consulted by the SFCs in the matter of borrowing funds from the State Governments, the terms and conditions are sometimes settled without the Reserve Bank being kept informed. It is felt that bypassing the Reserve Bank in negotiations of this nature is not in the best interests of the SFCs. Accordingly, we recommend that any accommodation which the SFCs may obtain from the State Governments should be after obtaining the prior approval of the Reserve Bank as regards the amount and the terms and conditions. This will also provide an opportunity to the Reserve Bank to consider the ways and means position of the State Government and take appropriate steps for easing the position of the SFC effectively. An amendment to Section 7(3) of the SFCs Act for this purpose has been proposed at item 8 of Appendix X.

No change in ceiling on deposits

102. As pointed out in paragraph 19 above, except for TIIC and the Gujarat, Maharashtra and Mysore SFCs, deposits do not form an important source of funds for the SFCs. The average rate of interest on deposits worked out to about 6¼%. Considering the level of rates of interest on term deposits, which is higher than the interest rate on bonds (6.18% including stamp duty, brokerage and discount), there is no strong argument for encouraging SFCs to depend on deposits. Nevertheless, several SFCs have pointed out practical difficulties in the application of the present two-tier rate structure on deposits and also suggested a schedule of interest rates in line with that of commercial banks.

We understand that the Reserve Bank is currently examining this question and that a decision would be taken shortly.

103. Suggestions have been received that the ceiling on deposits should be raised from the existing level equivalent to paid-up capital to three or even five times the paid-up capital. This suggestion does not seem to be in the interests of SFCs for the following reasons. Firstly, as already stated, deposits can be raised only at a relatively high cost. Secondly, the bulk of the deposits are for periods of about five or six years which when compared with the period of the loans of SFCs (10-12 years) should be deemed as comparatively short-term. Thirdly, it is necessary to maintain an even balance not only as between the owned funds and the liabilities but also as between the various classes of liabilities among themselves.

Concession under the Income-tax Act

104. The SFCs are allowed to transfer to a Special Reserve Account a sum not exceeding 25% of the profits of each year, the amount so transferred being free from income-tax. As already stated, almost all the SFCs have taken full advantage of the concession. However, the adequacy of this concession is to be viewed on the following considerations :—

(1) the extent to which the SFCs have been able to build up reserves and the need for further strengthening the reserves;

(2) whether the existing reserves are commensurate with the size of their overdues and suit-filed debts; and

(3) to what extent this concession has induced the State Governments to relax their levies, such as stamp duty, registration charges, etc. on the SFCs.

Need for transfer to Special Reserve Account 40% of annual profits

105. As already stated in paragraph 11, the SFCs have not been able to build up adequate reserves. For nine SFCs, the reserves are less than 25% of their paid-up capital and for the rest, they range between 25% and 40% (the maximum for any SFC at present). The average rate of increase in the reserves during the last three years was between 14% and 39%. At this rate, on the basis of the paid-up capital remaining at the existing level, it will take SFCs about 5 to 15 years for the reserves to equal their paid-up capital. As the capital will have to be raised, the period for the reserves to rise correspondingly, may be still longer. If the Special Reserve Fund representing dividends foregone by the Reserve Bank and the State Governments and the Special Reserve Account to which a portion of the pre-tax profit is transferred are excluded, the residual reserves are insignificant. It will be seen from the statement given in Appendix IV that the amount of overdues and suit-filed debts are on the increase and they formed as much as 17% of the total outstanding advances at the end of March 1970. The suit-filed

debts, in particular, constitute more than 5% of the total for eleven SFCs. These are the accounts which are likely to prove bad or doubtful of recovery. The SFCs, however, have been crediting to their profit and loss account the interest on these debts on the ground that the advances are, prima facie, fully secured. The adequacy or otherwise of the security can be known only on its actual realisation. It is the practice of the commercial banks to credit the interest on their suit-filed debts to a Special Suspense Account instead of to the profit and loss account. As the extent of suit-filed debts of commercial banks in relation to their total loans and advances is small, this practice would not considerably affect their profits or their capacity to pay dividends. Some of the SFCs are not in a position to adopt this salutary practice, as they may not be left with adequate profits for payment of dividend without drawing subvention from the State Governments. In this connection the position of the Assam, Bihar and Orissa SFCs whose suit-filed debts exceed 20% of their total loans may be specially mentioned. We also understand that even if the interest on these loans is credited to a Special Suspense Account, the Income-tax authorities would not allow the exclusion of this amount for assessment of taxable profits of SFCs. If, the SFCs are, therefore, allowed to transfer to the Special Reserve Account a higher percentage of their profits, it might be beneficial to some of the SFCs in that their liability for income-tax would be reduced.

106. Most of the State Governments have failed to respond to the gesture made by the Central Government in extending the exemption of 25% of profits transferred to reserves under the Income-tax Act. For example, they have not waived stamp duty on the bonds issued by the SFCs. It may be noted that whereas commercial banks collect substantial amounts in the form of deposits which do not attract any stamp duty, the SFCs have to raise a sizeable part of their resources through the issue of bonds. The payment of stamp duty on the bonds constitutes a burden on them. Further, most State Governments have also not relaxed the stamp duty and registration fees on the documents executed by the borrowers of SFCs (these are mostly in the form of registered mortgage deeds). Though the Reserve Bank had suggested to some of the State Governments to make concessions under these heads, the suggestion has not been acted upon. The general attitude of the State Governments appears to be that any concession by way of exemption from stamp duty given by them will only add to the income-tax liability of the SFCs. A denial of this concession would according to the State Government authorities lead to the entire amount of stamp duty accruing as revenue for the State, whereas out of 75% (i.e. after allowing for the 25% concession allowed under the Income-tax Act) of the sacrifice they may make by extending any concession, 55% will be recovered by the Central Government in the form of Income-tax.

107. As strengthening the resources of SFCs is an important objective and in view of the considerations set out above, we are of the view that SFCs may be compelled by statute to transfer 40% of their profits each year to a reserve fund, the amount so transferred being eligible for income-

tax concession in terms of Section 36(1) (viii) of the Income-tax Act. If the residual profit in any case is not adequate for payment of dividend the SFC may rely on subvention from the State Government to make up the deficiency. As the proposal involves a larger sacrifice by the Central Government than under existing provisions of the Income-tax Act, the State Governments should make a matching concession by waiving at least 50% of the stamp duty and registration charges on the documents that may be executed in favour of the SFCs by borrowers in the small-scale industrial sector. (We understand that the Mysore and Tamilnadu Governments have already extended this concession). The Central Government may deem this fiscal concession as one of the many concessions extended by it to the small-scale industrial sector. We are further of the view that as SFCs are promotional agencies which are obliged under the statute to raise a major portion of the resources for their operations through issue of bonds, their bonds may be exempted from stamp duty as a matter of statutory measure and the SFCs may not have to depend on State Governments for a concession in this respect each time a bond is issued. This may necessitate legislation by the State Governments. We suggest that the Reserve Bank and the Central Government may take up the matter suitably with the State Governments.

108. As regards the quantum of additional income-tax relief we have suggested that it may be 40% instead of the present 25% of the taxable profits. In suggesting the percentage we have carefully considered the ability of the SFCs to avail themselves of the concession without having to depend upon subvention from the State Government for meeting minimum dividend obligations. As already stated in paragraph 12, at the existing rate of 25%, three SFCs are not in a position to take full advantage of the concession. By raising it to 40% about seven SFCs may initially find it difficult to derive the full benefit but we expect that their business will increase substantially in the near future and that they will also be able to take full advantage of the concession.

109. The tax relief is at present restricted to term lending institutions whose paid-up capital does not exceed Rs. 3 crores. The TIIC has already reached this limit. There is an urgent need for it to increase its capital and reserves. Other SFCs are also expected to reach this limit shortly. As this restriction in the Income-tax Act might stand in the way of these SFCs increasing their capital, we suggest that this ceiling on paid-up capital may be raised to Rs. 5 crores from the present level of Rs. 3 crores.

Proposed outlet for surplus funds of SFCs in money market or participation certificates

110. Sometimes, as for example immediately after an issue of bond, an SFC has surplus cash on hand. It is the present practice of the SFCs to invest the surplus cash in the form of short-term deposits with commercial banks. A suggestion has been made that the SFCs may be allowed to lend to other SFCs which may be in need of funds in order to get a higher return. It is not a healthy practice for SFCs, which are term

lending institutions, to resort to short-term loan transactions among themselves. A better method of utilisation of the surplus funds, without at the same time impairing the liquidity of the SFC, would be for them to lend to the call money market provided they do not remain at that time indebted to the Reserve Bank on account of accommodation against Government securities or ad hoc bond. During the busy season, in particular, the loans to the market would fetch an attractive rate of interest. Alternatively, an SFC can purchase participation certificates recently introduced by some of the commercial banks. As a participation certificate represents an assignment of a loan or a part of a loan made by a commercial bank, the SFCs, in view of the statutory restriction on the nature of borrowers they can have on their books, cannot purchase the participation certificates representing loans to parties other than industrial concerns operating within the jurisdiction of the respective SFCs.

CHAPTER VI

MANAGEMENT AND ORGANISATIONAL ISSUES

111. The suggestions made by us in chapters IV and V seek to broaden the base of the business of the SFCs, increase the volume of their transactions and provide capital and other funds at concessional terms. These would be effective only if simultaneously other changes in the management and organisation of the SFC are also made; these are discussed below.

Reserve Bank to issue directions to the SFCs

112. In terms of Section 39 of the SFCs Act, in the discharge of its functions, the Board of Directors of an SFC shall be guided by such instructions on questions of policy as may be given to it by the State Government in consultation with the Reserve Bank. Except for one SFC, no State Government had occasion to issue any directive as contemplated is this Section. Even in the exceptional instance, the instruction was merely to avoid overlapping of functions between the SFC and the State Industrial Development Corporation of the State.

113. Section 39 of the SFCs Act is similar to Section 6(3) of the IFC Act as it stood before 1964, the only difference being that in relation to IFCI, the Central Government was the authority for issuing directions. With the establishment of the IDBI, the IFC Act was amended and the power for issuing directions was transferred from the Central Government to the IDBI. This was in recognition of the considerable assistance which was expected to be rendered by the IDBI to the IFCI. Moreover, as the apex term lending institution, it was also considered appropriate that IDBI should guide the policies and operations of IFCI.

114. The SFCs are the counterparts of IFCI at the State level. They receive considerable assistance from the Reserve Bank and the contribution of the Reserve Bank (including IDBI) to the resources of the SFCs is considerably larger than that of the State Governments. Further, the Reserve Bank is continuously in touch with the problems of small industries, especially in the process of administering the Credit Guarantee Scheme for small industries, under which a large share of risk inherent in lending to this sector is borne by it as an agent of the Central Government. Further, the Bank inspects the SFCs periodically and is also in continuous contact with their working all over the country as a result of which the Bank is placed in a vantage position to give guidance to them on issues of policy and other matters concerned with their working. Moreover, in the complex pattern of financing of industries which has emerged recently, a close co-ordination in activities has to be achieved by the Reserve Bank between the SFCs on the one hand and other term lending institutions and commercial and co-ope-

rative banks on the other. Overlapping of functions and multiple financing are to be prevented, and, where necessary, funds provided by one class of institutions are to be supplemented by those from another group. The all-India agencies are required to play an equal, if not a more significant role in the development of small-scale industries. It is no longer possible to think of industrial development of a State in isolation from the developments in other States.

115. We understand that on the basis of the periodical returns and other information received from the SFCs, the Reserve Bank had occasion to advise/caution SFC s on specific transactions as well as questions of policy. By and large, such advice/caution was followed by the SFCs except in a few instances. We feel that in the interests of orderly development of the business of the SFCs and for better co-ordination of the activities of IDBI and the SFCs, the Reserve Bank should have the power to issue directives to the SFCs. However, they may do so each time in consultation with the State Governments. In the unlikely event of the Board of Directors of an SFC failing to carry out the directives by the Reserve Bank, the Bank may ask the State Government to supersede the Board and appoint a new Board in its place until a properly constituted Board is set up. In case any dispute arises between the Reserve Bank and the State Government regarding any directive, the decision of the Reserve Bank shall be final. These suggestions which are on the lines of the corresponding provision in the IFC Act, may be incorporated in the SFCs Act through the amendments suggested at items 43 and 45 to 47 of Appendix X.

Board of Directors

116. In terms of Section 10 of the SFCs Act, the Board of Directors of an SFC comprises, besides its Managing Director, three directors nominated by the State Government, one director nominated by the Reserve Bank, one director nominated by IFCI, three directors, one elected by scheduled banks, one by co-operative banks and the third by other financial institutions including LIC and one director elected by the residual class of shareholders. The IFCI was given a representation on the Board of Directors of SFCs in the hope that it would result in co-ordination between the two institutions especially as the line of demarcation of the activities of the IFCI and the SFCs is not very clear. Besides, it was felt that the experience IFCI had acquired in processing term loan applications might prove advantageous to the SFCs in developing their business. Two members of our group are of the view that the association of the IFCI's nominees on the boards of their Corporations has been of considerable assistance to them. Even so, we cannot ignore certain developments in the institutional framework which have taken place since the passage of the SFCs Act in 1951. The IDBI was set up in 1964 and now renders considerable financial assistance, in the form of subscription to shares and bonds of SFCs and refinance of their loans. However, it has no representation on the Boards of Directors of SFCs. Many SFCs feel that the association of the IDBI with their manage-

ment would lead to a better appreciation of their problems by the IDBI. Moreover, IDBI as the parent Corporation of the IFCI, is in a position to play the role assigned to the IFCI under the SFCs' statute. In the circumstances, we are of the view that in place of the IFCI's nominee, a provision may be made for the IDBI's nominee on the Board of Directors of each SFC. We do not consider that any other change is called for in the composition of the Board of Directors. A suitable amendment for the above purpose has been suggested at item 10 of Appendix X.

Term of office or retirement of directors

117. It is understood that the Assam Government has pointed out certain lacunae in Section 11 of the SFCs Act. It has been suggested that though this Section provided for an elected director to continue to hold office till his successor was elected, it did not lay down any time limit for holding the election. There have been few instances of a director continuing to hold that post after the expiry of his term. However, most of the SFCs have suggested that it would be preferable to prescribe a suitable time limit within which a successor to a director who has completed his term should be elected. The Jammu & Kashmir SFC has proposed an amendment to provide for the election to be held within a prescribed period and if no election could be held in the absence of a nomination or in the event of all nominations being found invalid, the State Government be vested with certain residuary powers to fill up the vacancy. Though no time limit has been laid down for the election of the successor in the Act as it stands at present, the general presumption is that steps will be taken in due time by the Corporation to elect a successor. We expect that no SFC will allow the continuance of a director on its Board for an indefinite period after he completes his term. In the circumstances, though the statute may not provide for it explicitly, we do not consider that an amendment is necessary.

118. The Assam Government has raised a further point that one of the elected directors may cease, within the four-year term prescribed under the Act, to have any connection with the class of institutions which elected him. The question posed is whether in such an eventuality the person elected should continue to be a director for the full term of four years, even though he might have lost his representative character.

119. Normally a person is proposed for election not merely because he is directly connected with any institution belonging to a class of electors but also because of his status, knowledge of and experience in industry and banking, and other relevant considerations. The director in these instances represents a category of shareholders and not merely the institution with which he is directly connected. The mere fact that he has ceased to have a connection with the institution or the class of institutions which elected him is not a valid reason for making him vacate the office. Accordingly, we feel that no change in the statute is necessary for this purpose.

120. In terms of sub-section (3) of Section 11 of the SFCs Act, an elected director is eligible for re-election for not more than two full consecutive terms after the rotation of elected directors begins. It is, therefore, possible for a director to continue to hold the post for a period of twelve years at a stretch (4+4+4). We consider that this period is too long and no director should continue to hold that post beyond a maximum period of eight years. We feel that this sub-section needs an amendment to provide that even though an elected director might be eligible for re-election, no person shall be a director of an SFC continuously for a period exceeding eight years. A suitable amendment has been suggested at item 12 of Appendix X.

Resignation of office by director

121. According to Section 14(1) of the SFCs Act, a director resigning his office can do so only by giving notice thereof to the State Government and he would be deemed to have vacated his office only on his resignation being accepted. No change in this provision is called for so far as the nominated directors are concerned. However, it does not appear necessary for the notice of resignation of an elected director being given to the State Government. It is suggested that an elected director may give notice of his resignation in writing to the Chairman of the Board and on the resignation being accepted by the Board he may be deemed to have vacated his office. An amendment to the Act incorporating this suggestion has been proposed at item 13 of Appendix X.

Advances to directors and their concerns

122. We have come across a note prepared by an officer of the Gujarat SFC on the extent of loans and advances given by SFCs to concerns in which some of their directors are interested. We understand that the problem discussed therein is not as serious as has been made out inasmuch as some of the SFCs have shown in their balance sheets the figures of their advances to companies on the management of which the SFCs have nominated their director/s in terms of Section 27(2) of the SFCs Act. (This has been clearly stated in the balance sheet of the Kerala SFC). Besides, it is possible that some SFCs have included the advances made to concerns on the Boards of which a State Government might have nominated the same person who is nominated by it on the SFC. However, the note has focussed attention on a potential adverse feature in an SFC's working. In order to avoid a situation when an SFC may be criticised for excessive loans to its own directors' concerns, a statutory restriction should be placed on loans of this nature. We recommend that, as in the case of commercial banks, an SFC should be precluded from granting loans and advances or any other accommodation to (i) any concern of which a director of the SFC is a proprietor; (ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor, (iii) any company of which any of the elected directors of the SFC is a director, manager, employee or

guarantor or in which he holds substantial interest. The term "substantial interest" may be defined — (i) in relation to a company, holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together, in any shares the amount paid-up on which exceeds 25% of the paid-up capital of the company; and (ii) in relation to a firm, the beneficial interest held therein by an individual or his spouse or minor child, whether singly or taken together, which represents more than 25% of the total capital subscribed by all the partners of the said firm. An amendment to the SFCs Act incorporating this suggestion has been proposed at item 32 of Appendix X. Advances etc. already granted to existing directors would be outside the purview of the provision. It is expected that these loans etc. will be progressively reduced according to the terms of repayment already fixed.

Chairman of the Board of Directors

123. In terms of Section 15 of the SFCs Act, the Chairman of the Board of Directors of an SFC should be one of its directors other than the Managing Director, nominated by the State Government after considering the recommendation of the Board and he should hold the office for two years or until his successor is nominated. At present five SFCs, viz., Andhra Pradesh, Gujarat, Maharashtra, Rajasthan and West Bengal, have industrialists with a background of experience of industry and commerce as the Chairmen of their Boards. It is possible to relate the substantial progress made by most of these SFCs among others to the salutary influence of their industrialist Chairmen. For nine SFCs the Chairmen are senior officers of the respective State Governments. The Chairmen of the Assam, Mysore and Kerala SFCs are non-officials.

124. In eight out of the nine SFCs whose Chairmen are senior civil servants the Managing Directors are also from Government service. The Chairman of the Board of Directors plays a crucial role; when he is an industrialist he can bring to bear on the deliberations of the Board his business acumen, knowledge of industry and its problems and his contacts with the business community and exercise a moderating influence on directors holding extreme views on loan proposals. His access to the Ministers of the State Government should facilitate easy solutions to issues covering Government's powers vis-a-vis the Corporation. As he also presides over the general meetings of the shareholders, the image that the Chairman projects is of vital importance for the development of the business of the Corporation. If both the Chairman and the Managing Director are officers of the Government, an impression is apt to be created that the SFC is only a Department of the Government. Moreover, a senior officer as chairman may not find adequate time for attending to the affairs of the SFC. Though the progress of an SFC depends on various factors, such as the relative industrial vitality of the area, the entrepreneurial talent available there, the aggressiveness of operations of the SFC, the attitude and policies of the

State Government, etc., the public relations of the SFC through its top management, represented by the Chairman, will have its impact on its business. The relatively higher rate of expansion of some of the SFCs like Maharashtra and Gujarat may perhaps be partly due to this factor. The State Governments while appointing the Chairmen may choose them from among prominent industrialists in the region or retired civil servants with appropriate background of experience in industry or industrial finance.

Managing Director

125. According to Section 10(f) of the SFCs Act, the Managing Director of an SFC is to be appointed by the State Government in consultation with the Reserve Bank. In terms of Section 17(1)(c) of the Act, the period of his appointment should not exceed four years at a time. A statement showing the changes in the incumbents to this office in the seventeen SFCs (excluding TIIC to which the above provisions are not applicable) is given in Appendix XV. Some of the SFCs had during their existence varying from 10 to 15 years five or six Managing Directors. The following table shows the number of Managing Directors who occupied that post for less than two years, two to four years and above four years:

Period	*No. of Managing Directors*	*No. of SFCs*
Less than 2 years	28	13
Two to four years	22	14
Above four years	16	12

There have been too frequent changes of the incumbents to the posts of Managing Directors. Even where some of the officers held the post for a longer period, the appointments were initially made for a short period and thereafter extended from time to time. Of the 16 Managing Directors, who held/hold the post for more than four years, some were appointed initially for one or two years and the period extended subsequently. The present Managing Directors of 12 SFCs are officers belonging to the Administrative and other services, who are deputed by the State Governments. Of the other Managing Directors, one is a Chartered Accountant who had held the posts of Secretary and Accountant of the Corporation before promotion as Managing Director and four are officers from commercial or co-operative banks or the Reserve Bank.

126. The Managing Director is the pivot of the management of an SFC. The main work of an SFC constitutes what is called "development banking" and a successful practice in this special field calls for a combination of several managerial qualities, apart from some knowledge of working of industrial enterprises, industrial finance, banking and accountancy. A competent Managing Director will have to possess a progressive outlook on development, a capacity for judging men, imagination and tact. He

has to guide the Board in evolving sound loan policies and also implement them effectively. It may be necessary for him to stand up to external pressures on the Corporation's policies. It is not necessary for him to be a technically qualified person in its restricted sense. While some administrative experience would be helpful, the experience of work in an industrial concern or a financial organisation which assists industrial concerns would assist in bringing to bear on the work of an SFC an awareness of and the measures to be taken to promote industries.

127. It is understood that the Maharashtra and Mysore State Governments have included the post of Managing Director in the list of posts reserved for members of the Indian Administrative Service. Other State Governments may not have formally made such a reservation but in practice depute officers from their services. As indicated earlier, the period of deputation has been too short in many instances to give an opportunity to the officers to take a lively interest in the affairs of the SFCs and to introduce long-range programmes of development. It is necessary that the incumbent should be in the post for a *minimum period* of years. The existing provision that the appointment of Managing Director should be made "for a period not exceeding 4 years" at a time seems to have induced some State Governments to fix the periods of deputation of the Managing Director for very short periods. In order to avoid this, it is necessary that the provision in the Act is modified to indicate that the appointment of the Managing Director should be for a minimum period of four years subject to the State Government, on the recommendation of the Board of Directors, having the power of removing him from the post at any time. He should not also be appointed at a time for an unduly long period, say, for more than eight years at a time, but the appointment may be renewed from time to time.

128. We understand that several factors stand in the way of the State Government's making the appointments straightway for longer periods. On the one hand there is a need for finding suitable persons who can be appointed as Managing Directors of SFCs for a minimum period of four years and on the other hand to ensure for the SFCs the services of qualified, competent and experienced persons to guide their affairs. It is also necessary to impart some continuity at the top management levels for all SFCs i.e. at the levels of the Managing Director, the Secretary or General Manager, etc. These posts cannot normally be equated with administrative posts in government. As such posts in a single SFC are limited in number, it is difficult to locate suitable persons for these posts satisfying the criteria indicated above.

129. A suggestion has been made that a solution to this problem could be found by setting up a cadre of senior officers of SFCs on an all-India basis, i.e., for all SFCs together. There is no doubt that this will have seve-

ral advantages in that it would provide for mobility of personnel from region to region, facilitate streamlining the procedures and policies of the SFCs and would provide opportunities for promotion and advancement of career to lower ranks in all SFCs. From the point of view of SFCs, it will have the effect of professionalising the top posts and they would also get the benefits of services of comparatively more dynamic Managing Directors and Secretaries — even in cases where measures for development of business are called for. However, from the practical point of view there are certain formidable difficulties. Each SFC is an integral unit in itself having its own powers of appointment and dismissal of officers. So far as the Managing Directors are concerned, the appointing authority is the State Government. Problems of regional disparities, language, etc. also stand in the way of such mobility. Assuming that suitable persons with knowledge of local customs and language could be found, there will still be the need for State Governments and the SFCs transferring or delegating their powers to a Central authority. Such a central authority should have the powers of appointment, transfers and dismissal of the officers, and should be able to manage the incidental staff problems such as leave arrangements, administration of provident fund, etc. In view of these practical difficulties, this suggestion may not be workable.

130. A via media might be for the Reserve Bank to prepare a panel in consultation with the State Governments for suitable candidates to be drawn from Government services, the SFCs themselves, the Reserve Bank, term lending institutions like IDBI, IFCI and ICICI, commercial and co-operative banks, Chartered Accountants and management experts. A separate list could be maintained for each SFC. Whenever an occasion arises, the Reserve Bank might advise the State Government the name of the candidate for the post or suggest two or three names from which the State Government might make a selection. The appointment may thereafter be made as hitherto by the State Government. The responsibilities for preparing the panel should vest jointly in the Reserve Bank and the State Government.

131. The suggestions made above involve amendment to the SFCs Act, namely, to provide for a minimum period of appointment of the Managing Director and for the appointment to be made on the advice of the Reserve Bank, which has been suggested at items 11 and 14 of Appendix X.

Officers and other employees of the Corporation

132. In terms of Section 23 of the SFCs Act, the conditions of appointment and service and the remuneration payable to the officers and other employees of an SFC are required to be determined by "regulations". In terms of Section 48 ibid, an SFC has to consult the Reserve Bank and obtain the previous sanction of the State Government for making or amending the regulations which can come into force

only on their publication in the official gazette. It has been the experience of SFCs that these requirements result in considerable delay. There is no reason why matters which are of an administrative character should not be left to the discretion of the Board of Directors of an SFC. This could be achieved by adding an enabling provision in the Staff Regulations of SFCs by which the Boards of Directors of the SFCs may take decision on purely administrative matters without reference to the Reserve Bank or the State Government. An amendment to the SFCs Act for dispensing with consultations with the Reserve Bank and the State Government on administrative matters has been suggested at item 49 of Appendix X.

CHAPTER VII

MISCELLANEOUS MATTERS

133. In this chapter we propose to discuss a few problems of policy and administration.

Provision for partnership on limited liability

134. A large number of the units set up in the small industries sector are proprietary, Joint Hindu family and partnership concerns. There are instances where the promoter has the technical know-how but not the requisite funds. Persons who have funds to spare, are not willing to become partners in the venture in view of the unlimited liability attached to such partnership and the risks believed to be present in the ventures. It might prove attractive to persons with capital resources if a provision could be made in the Partnership Act for limited liability of some of the partners in certain circumstances. This would help the more affluent persons especially belonging to a family joining hands with the technically qualified persons in promoting partnership ventures with limited liability. Limited partnerships are in vogue in some countries like the U.S.A., United Kingdom, Canada, France, Italy, Australia, etc. We recommend the amendment of the Indian Partnership Act, 1932 in this regard.

Rights of the State Financial Corporation in case of default by loanee concerns

135. In terms of Section 29 of the SFCs Act, an SFC has the right to take over the management of an industrial concern which has defaulted in the payment of any money due to the SFC, or otherwise failed to comply with the terms of its agreement with the SFC. It has also the right to transfer by way of lease or sale and realise the security given to the SFC. In the construction of the clause, a doubt has been expressed that an SFC at present does not have the right to transfer by way of lease or sale or to realise the security without first taking over the management of the concern. Besides, in some cases it might become difficult to enforce such right, for example, when the industrial concern refuses to hand over or raises obstacles in handing over the management of properties to the SFC. The police or the Magistrate may not come forward to render any active help to the SFC to gain possession of the property. If the SFCs were to institute proceedings in a Civil Court, the matter would drag on for an indefinite period. The difficulty could be removed by empowering the Chief Presidency Magistrate or District Magistrate to assist the SFC in taking over the management or, as the case may be, realising the property of the defaulting concern. As the number of defaulting borrowers of SFCs is increasing day by day, we feel that an amendment to the Act on the above lines might prove useful to keep the defaults at a lower level. A suggestion for this purpose has been made in items 33 to 36 of Appendix X.

Special provision for enforcement of claims by an SFC

136. At present an SFC has to apply to a District Judge within the limits of whose jurisdiction the defaulting industrial concern carries on the whole or a substantial part of its business for certain reliefs as provided for under Section 31 of the SFCs Act. It would be helpful if the application could be made to the District Judge within the limits of whose jurisdiction the head office of the SFC is situated. Besides helping to reduce the cost of suit to some extent, this would enable an SFC to finalise and pursue a case more expeditiously. We understand that an amendment to this effect was proposed in 1962 in pursuance of a decision taken at a Conference of SFCs' representatives. But it did not find a place in the amendment bill in 1962 presumably because the Government did not consider it very urgent. We think that it will not be fair to file the petition for relief in a court other than the District Judge in whose jurisdiction the industrial concern carries on the whole or substantial part of its business. In any case, for executing the order that may be passed by the District Judge, it will have to be transferred to the court having jurisdiction over the area where the borrowing concern is located. This would involve some delay. Accordingly, we do not favour the amendment in this respect.

137. A further suggestion that has been made is that the SFCs should be enabled to recover their dues as arrears of land revenue. The Uttar Pradesh Government had passed such a legislation in the Public Monies (Recovery of dues) Act, 1965. We understand that this Act has been successfully challenged in the Allahabad High Court. It may not, therefore, be possible to have this remedy for SFCs. The members of this Group representing SFCs are uniformly of the view that the procedure prescribed under Section 31 of the Act is beneficial and that difficulty is experienced only at the execution stage. In this connection, the Orissa SFC had informed the Reserve Bank that according to the amended order 21 Rule 22 of the Civil Procedure Code, service of notice to opposite party in an execution case is indispensable and that if the serving of the second notice could be dispensed with, at least in cases where an application for execution has been filed within one year of the decree, it would be of help to reduce the delay in disposal of cases. Though it is fairly easy to obtain a decree, it takes considerable time for its execution. Any remedy for the SFCs should aim at curtailing this delay. A suggestion which has been made in this context is that the words "without prejudice to" occuring in Section 31(1) be changed to "notwithstanding".

138. Though taking action under Section 31 of the SFCs Act is advantageous and the SFCs have been generally resorting to this provision in law it has one drawback. In the event of the properties held as security not fetching the entire amount due to the Corporation, the SFC may have to file a regular suit to obtain a decree for the balance due. At present only a period of three years is prescribed for compensation for the breach of any contract expressed or implied not specifically provided for in the

Limitation Act. Some time elapses between the dates of commitment of the default, court order for sale of the properties and the actual sale. Only after the sale is effected can an SFC know whether there is any deficiency in the account for which a suit has to be filed for personal decree. If, in the meantime, the period of three years for limitation has expired, the SFC will have no remedy. The Mysore SFC has reported that two cases filed by it are pending in court for nearly three or four years due to objections to the original petition in one case and to execution in another. Thus the difficulty posed is a real one. In our view this difficulty would disappear if the rights and powers of the SFCs for taking over the management, or, as the case may be, realising the property of the defaulting concern, are buttressed in the manner suggested in paragraph 135 above. For the same reasons, it is not felt necessary to alter the words "without prejudice to" occuring in Section 31(1) of the SFCs Act as in the suggestion referred to in paragraph 137. Besides, even if those words are changed as suggested, it would not be permissible to have recourse to Section 29 of the SFCs Act after initiating action under Section 31 unless the proceedings pending before the Court are withdrawn at the appropriate stage.

139. A further difficulty which has been pointed out is that in terms of Section 32(1) of the Act, the District Judge would pass an interim order attaching only the security or so much of the property of the industrial concern as would on being sold realise in his estimate an amount equivalent to the debt due to the SFC. It has been pointed out that the security referred to is only that of the industrial concern and that it is doubtful whether in the same proceedings the SFC could proceed against the properties of the co-mortgagors or co-guarantors held as collateral security. This drawback may perhaps be remedied by substituting for the words "so much of the property of the industrial concern" the words "so much of the security," vide item 37 of Appendix X.

Audit

140. In terms of Section 37 of the SFCs Act the affairs of an SFC are required to be audited by (i) an auditor elected by the shareholders other than the State Government and the Reserve Bank; (ii) an auditor appointed by the State Government and (iii) the Comptroller and Auditor General. Many SFCs are of the view that this multiplicity of audit leads to locking up of their personnel for attending to the requirements of the auditors instead of devoting their time for the normal and promotional work of the SFCs. The Working Group under the Chairmanship of Shri K. C. Mittra had suggested, inter alia, that the State Governments may perhaps waive their right to appoint an auditor and be satisfied with the two other audits. This recommendation has not been accepted. On the other hand the Comptroller and Auditor General is keen that the State Government should appoint the auditor not merely in consultation with him but on his advice. It would appear that the audit by the Comptroller and Auditor General is in the nature of a test audit which is super-imposed on the audit by the Government's auditor. In view of

the substantial financial stake which the State Government has in an SFC, not only in view of the shareholdings but also in view of the guarantees given by them for the liabilities of the SFC (bonds and deposits), it is not fair to require the State Governments to waive their right. On the other hand, if the Comptroller and Auditor General prepares a panel of auditors acceptable to the State Government and the other class of shareholders are also agreeable to the State Government's choice, two separate audits by commercial auditors may not be necessary. In other words, the auditor appointed by the State Government can also be chosen by the other shareholders. As this would involve only acceptance of a common auditor by the different classes of shareholders and does not involve waiving of rights by any of the parties, this may be an acceptable solution. An amendment to Section 37(1) for the purpose has been suggested at item 42 of Appendix X.

Restriction on use of words 'Finance Corporation'

141. It has come to our notice that some proprietary and partnership firms as also companies use the words 'Finance Corporation' or some minor variation of these words as part of their names and solicit deposits from the public by offering high rates of interest. It is universally known that the deposits of the SFCs are guaranteed by the respective State Governments as regards repayment of principal and interest and that the SFCs enjoy State and Reserve Bank's patronage to a substantial extent. It is possible that some persons may mistake the finance corporations sponsored by private persons for the State and Reserve Bank-sponsored institutions and deposit their savings with the former. As their affairs may not be subject to official supervision and control, the depositors' money may be jeopardised. It is also not desirable that amounts which would normally have been placed with SFCs should be diverted to other agencies. Accordingly, we are of the view that there should be a statutory ban on the use of the words 'Finance Corporation' or 'Financial Corporation' as part of the name of any concern unless approved by the Reserve Bank. The introduction of a new provision in the SFCs Act for this purpose has accordingly been suggested at item 27 of Appendix X.

Earmarking of funds out of annual transfer to National Industrial Credit (Long-Term Operations) Fund

142. The proposals made in this report require additional investment by the Reserve Bank/IDBI in the share capital — normal as well as special — of SFCs, liberal refinancing of their term loans and, where necessary, subscription to their bonds if the market response proves to be inadequate at any time in future. The National Industrial Credit (Long-Term Operations) Fund has been set up, inter alia, for such assistance to the SFCs. The Fund is also intended for giving financial assistance through the IDBI to medium and large-scale industrial and public sector under-

takings. Substantial demands may be made on this Fund from the large and medium scale and public sector industries in the context of the sizeable expansion of these sectors envisaged in the Fourth Plan. We apprehend that if no specific earmarking of a portion of the Fund is made in favour of small industries, a stage may arise when the Fund may prove inadequate to meet the full requirements of the small-scale industries. Accordingly we suggest that while making the annual appropriations to the Fund, the Reserve Bank may take into account the likely demand that may arise from the various sectors — small-scale industrial sector, large scale industries and public sector undertakings — and earmark the amount specifically intended for small industries — a sector which has been accorded a priority status — in the annual transfers to the Fund.

Assistance under the State-Aid to Industries Act/ Rules

143. State Governments grant loans to small-scale industries under the State-Aid to Industries Act and the Rules framed thereunder. The Central Government makes available funds to the State Governments for this purpose. The Assam, Gujarat, Kerala, Maharashtra, Orissa, Punjab, Rajasthan and Uttar Pradesh SFCs have been appointed as the agents of the respective State Governments for sanctioning and disbursing loans to small-scale industries under the State-Aid to Industries Act. The amount of loan that may be sanctioned varies from Government to Government (vide Appendix XVI). Most of these Governments also make available to the SFCs the amount required for this purpose. In Andhra Pradesh, the State Government itself sanctions the loans but disbursement is made by the SFC out of the funds provided by the State Government. Such arrangements with SFCs have not been made in other States. The arrangements are thus not uniform and some of the SFCs, acting as the agent of the Government, have experienced practical difficulties, for example, loans sanctioned under the State Government's scheme could not be disbursed as the Government had not provided adequate funds. In order to obviate such situations and ensure that the programme relating to small-scale industries does not at all suffer for want of adequate resources in good time, some changes in the system of providing assistance under the Act is called for.

144. Now that IDBI provides refinance on a liberal scale, there appears to be no need for the Central Government to make any separate allocation of large funds to the State Governments for this purpose except where they may be needed for providing assistance to very small units up to, say, Rs. 5,000 or Rs. 10,000 in each case. For higher amounts the SFC may make loans out of its own funds and obtain refinance from the IDBI. The loans so made are eligible for guarantee under the Credit Guarantee Scheme for small-scale industries. For loans up to Rs. 1 lakh per borrower, or other suitable limit which may be prescribed by a State Government, the

SFC may charge a concessional rate, if required by the State Government the same rate as prescribed at present under the State-Aid to Industries Act/Rules. The State Government may subsidise the SFC to the extent of the difference between the SFC's normal lending rate and the special rate at which the loan is granted. We understand that such an arrangement is in force in a few States like Maharashtra and Gujarat. We further understand that a suggestion to this effect has been made by the Reserve Bank to some of the State Governments. It is suggested that in order to place the matter on a formal basis and in the interests of uniform practice all over the country, suitable amendments may be made to the State-Aid to Industries Act/Rules.

Making loans and giving guarantees against the guarantee of State Government

145. In terms of Section 25(2) of the SFCs Act an SFC may provide accommodation to an industrial concern in the form of loans, loan guarantees and deferred payments guarantees or by way of subscription to debentures against, among other things, the guarantee as to repayment of principal and payment of interest, by a State Government. We understand that there have been instances where accommodation was provided by SFCs to some concerns solely against such government guarantee. In these instances either the concern had no assets to offer as security or the available assets were heavily mortgaged in favour of other parties. We do not consider that the SFC should be used as an instrument for prolonging the life of failing units. We apprehend that when the State Government guarantee is available, an SFC is apt to overlook other essential considerations such as the potentiality for growth of the concern, its viability, etc. The resources of an SFC should be employed for building up productive assets. Accordingly, we feel that the SFCs should not extend accommodation solely on such guarantees. In every case, the existing assets of the borrowing concern or those to be acquired out of the SFC's funds should be available to the SFC as security. An SFC may, however, accept Government guarantee as additional or collateral security, where warranted. We do not consider it necessary to amend the SFCs Act for the purpose but the SFCs may, in their own interest, adopt this suggestion as a guiding principle in their operations.

Co-ordination of activities of SFCs and other State level bodies

146. There are certain institutions like State Industrial Development Corporations set up in each State with the specific object of promoting industrial development. Some of them have been set up as statutory bodies while others are incorporated under the Companies Act, 1956. Whatever be their constitution they are State Government undertakings and, barring one or two exceptions, their entire resources are derived from the State Governments. Depending partly on the policies of the

State Governments and partly on the resources they are able to command, the major functions of these Development Corporations vary from State to State. By and large they manage some of the public sector industrial undertakings in the States, develop land and industrial areas/estates, promote the establishment of industrial units either on their own or in participation with private entrepreneurs, extend loans to units in the private sector and underwrite or directly subscribe to the capital of industrial units. It will be seen that some of the functions like granting of loans, underwriting and subscribing to shares are common to the Development Corporations as well as SFCs. The area of duplication of functions is likely to increase when some of our recommendations for enlarging the scope of operations of SFCs are implemented. In order to avoid overlapping, there is a need for demarcation of areas between SFCs and State Development Corporations. We suggest that the Development Corporations may render financial assistance of any kind only to units which cannot be assisted by the SFCs under their statute, i.e. private or public companies needing an amount in excess of Rs. 20 lakhs or other concerns needing over Rs. 10 lakhs. In this matter of demarcation, it is necessary to have some flexibility especially in the type of loan, underwriting and other assistance and a possible solution might be to provide for the appointment of the Managing Director of the Development Corporation as a director of the SFC and vice versa. Such a link up at the management level would help to bring about the desired coordination of activities between the two agencies and might also facilitate individual units getting the required financial assistance expeditiously.

Lending rates

147. A statement showing the rates of interest charged by the SFCs on their loans and the rates of commercial banks applicable to the small-scale industrial sector are indicated in Appendix XVII. It will be seen that the rates of SFCs are generally lower than those of the commercial banks.

148. The commercial banks have the advantages of (1) a larger scale of operations and (2) a lower average cost of raising funds. The average cost of raising funds for commercial banks varies between 3% and 4½% and their lending rates are also generally higher. The SFCs on the other hand have to pay a comparatively larger rate of interest on their resources and the return also is lower. The average cost of funds ranged between 4.5% and 6.4% during 1969-70 while the average return on assets varied between 6.8% and 8.9%. The spread was between 1% and 3.1% and in case of 7 SFCs it was less than 2%.

149. An immediate effect of the lower rates of interest seems to be that the borrowers are tempted to retain the funds with them for a longer period than the circumstances warrant or even beyond the periods stipulated for repayment. In order, therefore, to make their operations remunerative,

enable them to undertake promotional activities to a greater extent, discourage borrowers from holding on to the SFCs' funds for unduly long periods, and strengthen their internal resources position, there is a strong case for an upward revision of the rates of interest on SFCs' loans and advances. We suggest that every SFC put up its rate by ½%. Where the rates of interest are tagged on to the IDBI's schemes or Government's schemes, the raising of the rate may be done in consultation with the concerned agencies.

Amendments to SFCs Act

150. A list of amendments required to be made to the SFCs Act in the light of the suggestions made in the foregoing paragraphs is given in Appendix X. References to most of these amendments have been made in the appropriate paragraphs along with our recommendations which make the amendments necessary. A few amendments which are consequential to those resulting from our suggestions are indicated in Appendix X by suitable remarks. A few amendments proposed therein which do not directly arise from our suggestions are discussed below :

(a) According to Section 46A of the SFCs Act, a State/Union territory can arrange for an SFC established by another State to serve its territory. However, the statute does not provide for more than one SFC serving the needs of a single State/Union territory which has not established a financial corporation of its own. Such a provision is considered necessary because the areas of some States/territories may lie scattered as, for example, in the case of the Union Territory of Goa, Diu and Daman. Goa is contiguous to Maharashtra State but Diu and Daman which are geographically nearer to Gujarat State, can be better served by the Gujarat SFC. A draft amendment for this purpose has been suggested at item 48 of Appendix X.

(b) In terms of Section 48(3) of the SFCs Act, all regulations (such as Staff Regulations) made by the SFC are required to be published in the Official Gazette and can come into force only on such publication. According to legal opinion obtained by the Reserve Bank and some SFCs, any regulation can come into force only from the date of the publication and it cannot have retrospective effect; for example, if the scales of pay of a category of employees are to be revised, the revised scale can come into force only from the date of publication of the amended regulations. In view of the fact that the approval of the Reserve Bank and the State Government are required to be obtained, which takes some time, this has led to certain practical difficulties for SFCs. In order to clarify that regulations can be given restrospective effect, a suggestion has been made for an amendment to Section 48(3) of the SFCs Act, *vide item* 50 of Appendix X.

(c) In terms of Section 38 of the SFCs Act, the SFCs are now re-

quired to furnish certain statements and returns to the Reserve Bank as also to the State Governments. The Reserve Bank has found it necessary from time to time to call for information relating to specific aspects of SFCs' operations for answering questions raised in Parliament and for formulating suitable credit policies. An amendment has been suggested at item 44 of Appendix X to authorise the Reserve Bank to get the required information on a formal basis.

(d) In terms of Section 33(2) of the SFCs Act, the SFCs can deposit their surplus funds with the Reserve Bank, the State Bank or any of its subsidiaries or in consultation with the Reserve Bank, with any other scheduled bank or State Co-operative bank. After the nationalisation of the major banks, it is not considered necessary that the SFCs should consult the Reserve Bank for depositing their surplus funds in the nationalised banks. An amendment to the SFCs Act to enable the SFCs to deposit monies with the nationalised banks without prior consultation with the Reserve Bank has been suggested at item 38 of Appendix X.

(e) In terms of Section 25(1)(d) of the SFCs Act, an SFC is authorised to act as agent of the Central or the State Government or the IFCI or any other financial institution notified by the Central Government in the transaction of any business with an industrial concern in respect of loans and advances granted or debentures subscribed by any one of them. A doubt has been expressed that this section does not authorise the SFCs to grant loans on behalf of the above named principals but only to service loans granted by them. An amendment to remove the ambiguity in this provision has been suggested at item 22 of Appendix X.

(f) According to Section 17(1)(a) of the SFCs Act the Managing Director should be a whole time officer of the Corporation. The words "whole time" have sometimes been interpreted in a too inflexible manner so that the Managing Director is not able to undertake even honorary work, for example, as a director of other financial institutions or adviser to any other agency engaged in promoting industries. It does not seem to have been the intention of the framers of the statute to place such a rigid restriction on the Managing Director. We feel that it is necessary to clarify the position by adding a proviso to the above clause to authorise the Board of Directors of an SFC to permit its Managing Director to undertake at the request of the Central Government, the State Government or the Reverve Bank part time honorary work, whether related to the operations of the SFC or not, but without interfering with his duties as the Managing Director. The proviso may be on the lines suggested at item 14 of Appendix X.

CHAPTER VIII

Summary of recommendations

151. The more important recommendations made in the previous chapters are summarised below:—

1. The Reserve Bank may take up with the Kerala State Government the question of extending the jurisdiction of the Kerala SFC to the Laccadive group of islands (paragraph 6, page 5).

2. Six SFCs with working funds below Rs. 4 crores as on 31 March 1970 should take urgent steps to increase their business expeditiously if they are to reach the minimum size for viability (paragraph 27, page 16).

3. The SFCs may make arrangements to obtain up-to-date lists of functioning small industrial units in the non-corporate sector from the appropriate departments of the respective State Governments (paragraph 34, page 21).

4. SFCs may arrange for periodical surveys and/or seminars at selected growth centres in every district and arrange for periodical contacts with all existing and potential entrepreneurs (paragraph 34, page 21).

5. SFCs should be enabled to extend financial assistance to certain additional lines of activity besides those covered at present (paragraph 35, page 22).

6. SFCs may not finance concerns engaged in film production, construction of cinema theatres, medical units and service units like laundering and advertising (paragraphs 37 to 39, pages 22 and 23).

7. In view of the magnitude of assistance to the small-scale industries envisaged in Fourth Plan period, there is a case for larger coordination and participation between SFCs and commercial banks (paragraph 44, page 25).

8. Where a bank's credit-deposit ratio is on the high side and it has also granted sizeable term loans to small and medium industries without entering into participation arrangements with SFCs, the Reserve Bank may consider the question of advising it to evolve suitable arrangements (paragraph 45, page 26).

9. The SFCs may be authorised to issue guarantees in favour of sche-

duled banks and State Co-operative banks in respect of not only loans but also other types of credit facilities (paragraph 47, page 27).

10. In order to be of effective assistance to small and medium industries for import of plant and machinery, the SFCs may be enabled to issue guarantee in favour of ICICI (paragraph 48, page 27).

11. In cases where an engineer or a technically qualified person has just enough resources to meet the initial pre-construction expenses and margin for working capital, SFCs may grant loans with very low margins of 5% to 10% on the value of fixed assets and postpone the collection of the interest accruing during the first two or three years i.e. till such time as the borrowing concerns are able to make satisfactory gross profit. The refinance scheme of IDBI could also be modified to suit instances of this nature (paragraph 50, page 28).

12. In view of the restricted transferability of the shares of a private company it may not be prudent for an SFC to subscribe to its equity shares (paragraph 51, pages 28 and 29).

13. Where a private company has or is likely to have sufficient fixed assets to offer as security, loans alone may be provided either carrying no interest during the first two or three years and slightly higher than normal rate during the later years or a progressively increasing rate. Where the company has potentialities for growth but the promoters do not have sufficient funds for the initial capital, the SFC might subscribe to redeemable cumulative preference shares subject to certain safeguards (paragraph 52, page 30).

14. SFCs may subscribe both to equity and preference capital of a public company subject to certain safeguards (paragraph 53, page 30).

15. In order to undertake financial assistance to industrial units in the form of loans with no or low rates of interest in the initial years, or participation in preference or equity shares, SFCs may be allowed to create a special class of capital bearing no minimum dividend obligation to be contributed entirely by the State Governments and the Reserve Bank/IDBI in agreed proportions (paragraph 56, page 31 and paragraphs 82 to 84, pages 40 and 41).

16. It might be prudent for SFCs to restrict investments in shares in each year to the amount of special capital which the SFC might be able to raise and the total of outstanding portfolio of share investments to not more than 15% of its outstanding loans and advances. An overall ceiling on the extent of investment in shares and outstanding underwriting obli-

gations may be set at an amount equivalent to the amount of special capital plus 50% of the normal paid-up capital and reserves of an SFC (paragraphs 57 and 58, pages 31 and 32).

17. SFCs should build up at least in their head-offices an appropriate machinery for financial and technical appraisal of projects and for advising assisted units on their problems (paragraph 60, page 32).

18. SFCs may devise means of supplementing the efforts of State Governments and the IDBI in order to achieve a more balanced territorial distribution of SFCs' assistance and also to ensure a reasonable coverage of all the districts (paragraph 61, page 32).

19. Each SFC, as far as possible, should aim at having at least one office in each region. The State Government or the Reserve Bank may subsidise the cost of branch expansion programmes of SFCs deserving support in this regard for an initial period of 3 years (paragraphs 62 and 63, pages 32 and 33).

20. Industrial surveys which are to be jointly conducted by the Reserve Bank, IDBI, ICICI and IFCI in certain developing States might cover not only the establishment of large and medium industries but also small industries. In addition, arrangements should be made whereby, where necessary, individual industry profiles or project reports should be prepared and furnished to prospective entrepreneurs (paragraph 64, page 33).

21. The responsibility for formulating policy measures governing the growth of small industries should be fixed on the Industrial Finance Department of the Reserve Bank (paragraph 65, page 33).

22. The contingent liability may be excluded from the purview of the ceiling prescribed in Section 7(5) of the SFCs Act (paragraph 69, page 35).

23. A ratio of 5:3 may be observed as between bonds issued by an SFC and the amount of refinance obtained by it from IDBI. This ratio may be relaxed to 5:4 in deserving cases for short periods (paragraph 70, page 35).

24. There is no case at present for enhancing the existing ceiling limits on loans and advances to individual borrowers. However, the ceiling on assistance to private companies may be raised to Rs. 20 lakhs (paragraph 76, page 37).

25. The assistance that may be provided by an SFC to a single concern in the form of deferred payments guarantees, underwriting agree-

ments and capital participation, along with loans and loan guarantees may not exceed Rs. 30 lakhs in the case of a company or a co-operative society and Rs. 15 lakhs in the case of other types of concerns (paragraph 77, page 38).

26. In order to ensure that the SFCs confine their dealings to the small and medium scale units in the lower brackets, the Reserve Bank may prescribe a suitable ceiling on the size of an industrial concern eligible for financial assistance from an SFC (paragraph 78, page 38).

27. IDBI may be specifically mentioned as a separate class of shareholder in the same way as the State Government and the Reserve Bank in sub-section (3) of Section 4 of the SFCs Act (paragraph 80, page 39).

28. SFCs may increase their capital by making private issues to be subscribed to by the State Governments and the Reserve Bank or the IDBI carrying a minimum dividend liability of 3% or 3½% (paragraph 81, pages 39 and 40).

29. The State Governments may allow the SFCs to convert the subvention liability into special capital bearing no minimum dividend obligation (paragraph 86, page 42).

30. The statute may be amended to enable IDBI also to forgo the dividend on its shareholdings in SFCs for credit to the Special Reserve Funds of the SFCs. The existing ceiling of 10% of paid-up capital on the total amount that may be credited to the Special Reserve Fund may be raised to 25% of paid-up capital. The SFCs may be allowed to utilise the balances in the Fund towards expenses for developmental purposes approved by the Reserve Bank and the State Government (paragraph 87, page 42).

31. The existing ceiling limit at 60% of the paid-up capital on borrowings under Section 7(2)(b) of the SFCs Act from the Reserve Bank may be raised to 90% of the paid-up capital (paragraph 88, page 43).

32. The Reserve Bank may extend accommodation under Section 7(2)(b) against an agreement executed by each SFC instead of an ad hoc bond. The State Government's guarantee for such advances should be automatic under the statute as in the case of deposits accepted at present by SFCs (paragraph 89, pages 43 and 44).

33. While settling the annual market programme of SFCs the Reserve Bank may take into account the utilisation of alternate avenues of raising resources such as refinance (paragraphs 92 and 95, pages 44 and 45).

34. The SFCs may be allowed to raise a part of their resources

through issue of bonds of shorter maturity, say, 7 years (paragraph 96, page 46).

35. In order to enable SFCs to utilise the refinance facilities on a liberal scale, the IDBI may allow some relaxations and make some adjustments in its procedures subject to the SFCs complying with certain minimum requirements (paragraph 98, page 46).

36. IDBI may sanction refinance normally up to three times and in special circumstances up to four times the paid-up capital and reserves of an SFC (paragraph 99, pages 46 and 47).

37. Any accommodation that the SFCs may obtain from the State Governments should be after obtaining the prior approval of the Reserve Bank as regards the quantum and the terms and conditions (paragraph 101, page 47).

38. It is not in the interest of SFCs to change the existing ceiling limit on deposits that may be accepted by an SFC (paragraph 103, page 48).

39. SFCs may be compelled by statute to transfer 40% of their profits each year to a reserve fund, the amount so transferred being eligible for income-tax concession under Section 36(1)(viii) of the Income-tax Act. The State Governments should make a matching concession by waiving at least 50% of the stamp duty and registration charges on the documents that may be executed in favour of the SFCs by borrowers in the small-scale industrial sector. The existing ceiling of Rs. 3 crores on paid-up capital for eligibility for the maximum concession under Section 36(1)(viii) of the Income-tax Act may be raised to Rs. 5 crores (paragraphs 107 and 109, pages 49 and 50).

40. The bonds to be issued by the SFCs may be exempted from stamp duty through appropriate changes in the relevant statutes (paragraph 107, page 50).

41. An SFC which has temporarily surplus funds, may lend to the call money market provided they do not at that time remain indebted to the Reserve Bank, or purchase participation certificates recently introduced by some commercial banks (paragraph 110, page 51).

42. In the interests of orderly development of the business of the SFCs and for better co-ordination of the activities of IDBI and the SFCs, the Reserve Bank should have the power to issue directives to the SFCs (paragraph 115, page 53).

43. A provision may be made for the IDBI's nominee on the Board of Directors of each SFC in place of the IFCI's nominee (paragraph 116, pages 53 and 54).

44. No elected director should continue to hold that post beyond a maximum period of eight years (paragraph 120, page 55).

45. An elected director may resign from that office by giving notice of resignation to the Chairman of the Board of Directors of the SFC (instead of the State Government as at present) (paragraph 121 page 55).

46. As in the case of commercial banks, an SFC should be precluded from granting loans and advances or any other accommodation to a concern in which any of its directors is having substantial interest (paragraph 122, pages 55 and 56).

47. A State Government may, while appointing the Chairman of the Board of Directors of the SFC, choose him from among prominent industrialists in the region or retired civil servants with appropriate background and experience in industry or industrial finance (paragraph 124, page 57).

48. The appointment of the Managing Director should be for a minimum period of four years subject to the State Government, on the recommendation of the Board of Directors, having the power of removing him from the post at any time. The appointment should not also be made for an unduly long period (paragraph 127, page 58).

49. The Reserve Bank may, in consultation with the State Government, prepare a panel of suitable candidates for appointment as the Managing Director of each SFC and the State Government make the appointment on the advice of the Reserve Bank (paragraph 130, page 59).

50. The Board of Directors of an SFC may take decisions on purely administrative matters relating to its Staff Regulations without reference to the Reserve Bank or the State Government (paragraph 132, page 60).

51. The Indian Partnership Act may be amended to provide for partnership on limited liability basis (paragraph 134, page 61).

52. The Chief Presidency Magistrate or the District Magistrate may be empowered to assist an SFC in taking over the management, or, as the case may be, realising the property of the defaulting concern (paragraph 135, page 61).

53. The Comptroller and Auditor General may prepare a panel of auditors acceptable to the State Government. The other classes of shareholders may choose one of the auditors in the panel to avoid multiplicity of audits (paragraph 140, page 64).

54. There should be a statutory ban on the use of the words 'Finance Corporation' or 'Financial Corporation' as part of the name of any concern unless approved by the Reserve Bank (paragraph 141, page 64).

55. While making the annual appropriations to the National Industrial Credit (Long Term Operations) Fund, the Reserve Bank may take into account the likely demand that may arise from the various sectors — small-scale, large-scale and public — and earmark the amount specially intended for small industries (paragraph 142, page 65).

56. There appears to be no need for the Central Government to make any separate allocation of large funds to the State Governments for enabling the latter to extend financial assistance, except for small amounts, to industrial units under the State Aid to Industries Act (paragraph 144, page 65).

57. The SFCs should not extend accommodation solely on the guarantee of State Government. Such guarantee may be accepted only as additional or collateral security, where warranted (paragraph 145, page 66).

58. To avoid overlapping of functions, the Development Corporations may render financial assistance of any kind only to units which cannot be assisted by SFCs and a provision may be made for the appointment of the Managing Director of the Development Corporation as a director of the SFC and vice versa (paragraph 146, page 67).

59. SFCs may put up the lending rates on loans by ½% (paragraph 149, page 68).

Acknowledgements

152. We wish to place on record our high appreciation of the valuable work performed by Shri P. R. Rajaratnam, Member-Secretary, in the preparation of the report. Sarvashri G. Venkataramani and D. M. Shirodkar, Industrial Finance Officers and the secretarial staff assisted him in this regard and in the assembly of comprehensive information. Without their devoted work it would not have been possible for the Group to complete its assignment in a short

time since it held its first meeting on 22 August 1970.

Shri K. N. R. Ramanujam	Chairman
Shri Brahma Swarup	Member
Shri V. G. Hegde	,,
Shri J. R. Joshi	,,
Shri M. S. Palnitkar	,,
Shri M. R. Roy	,,
Shri S. P. Sen Gupta	,,
Shri C. S. Seshadri	,,
Shri Sunder Singh	,,
Shri A. N. Vij	,,
Shri P. R. Rajaratnam	Member-Secretary

Dated: October 27, 1970.

Appendix I

Statement of liabilities and assets of State Financial Corporations as on March 31, 1970

LIABILITIES (Rupees in lakhs)

Corporation	Paid-up capital				Reserves					Bonds	Borrowings					Deposits	Other Liabilities			Total Liabilities
	State Govt.	IDBI/RBI	Others	Total	Under Section 35	Under Section 35A	Under Section 36(1) (viii)	Others	Total		State Govt.	RBI	IDBI	Others	Total		Subvention	Others	Total	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. Andhra Pradesh	70	20	60	150	2	10	23	3	38	305	—	3	361	—	364	32	15	27	42	931
2. Assam	52	20	28	100	4	8	15	5	32	282	—	—	7	—	7	43	9	14	23	487
3. Bihar	40	15	45	100	1	—	7	9	17	157	—	31	42	—	73	—	14	17	31	378
4. Delhi	25	2	23	50	—	2	3	1	6	97	18	—	46	—	64	—	—	8	8	225
5. Gujarat	39	20	41	100	—	10	13	3	26	327	123	60	173	46	402	81	13	23	36	972
6. Haryana	41	6	53	100	3	3	15	8	29	278	—	—	218	—	218	1	—	22	22	648
7. Himachal Pradesh	28	2	5	35	—	2	2	1	5	1	—	—	—	—	—	—	1	1	2	43
8. Jammu & Kashmir	41	10	26	77	1	6	5	—	12	55	10	—	—	—	10	—	11	4	15	169
9. Kerala	60	16	24	100	3	8	11	—	22	320	—	42	54	—	96	17	17	19	36	591
10. Madhya Pradesh	58	15	27	100	4	7	14	3	28	424	—	30	80	—	110	1	18	18	36	699
11. Maharashtra	58	18	74	150	4	8	28	14	54	1174	—	—	275	—	275	130	18	64	82	1865
12. Mysore	41	15	44	100	5	9	18	1	33	416	—	40	78	—	118	58	12	29	41	766
13. Orissa	64	20	16	100	—	10	10	2	22	240	—	—	27	—	27	—	12	18	30	419
14. Punjab	30	9	36	75	1	4	13	6	24	196	45	1	76	—	122	2	—	54	54	473
15. Rajasthan	36	21	43	100	—	8	11	1	20	280	—	—	97	—	97	3	14	14	28	528
16. Uttar Pradesh	140	15	30	185	1	9	15	—	25	203	43	49	70	—	162	—	14	16	30	605
17. West Bengal	32	20	48	100	—	10	17	13	40	454	19	—	198	—	217	—	12	25	37	848
18. Tamilnadu IIC@	192	75	33	300	—	—	14	41	55	788	43	—	442	—	485	968	—	28	28	2624
Total ...	1047	319	656	2022	29	114	234	111	488	5997	301	256	2244	46	2847	1336	180	401	581	13271

@ As on March 27, 1970.

ASSETS

(Rupees in lakhs)

Corporation	Loans and Advances	Investments: Government & other trustee securities	Investments: Shares	Investments: Debentures	Investments: Other	Investments: Total	Other Assets: Tangible	Other Assets: Intangible	Other Assets: Dividend Deficit Account	Other Assets: Total	Total Assets
1	2	3	4	5	6	7	8	9	10	11	12
1. Andhra Pradesh	776	31	21	25	—	77	63	—	15	78	931
2. Assam	429	—	—	—	—	—	49	—	9	58	487
3. Bihar	336	5	—	—	—	5	20	3	14	37	378
4. Delhi	203	—	—	—	—	—	22	—	—	22	225
5. Gujarat	803	14	74	—	—	88	68	—	13	81	972
6. Haryana	602	2	—	—	—	2	42	2	—	44	648
7. Himachal Pradesh	28	1	—	—	—	1	13	—	1	14	43
8. Jammu & Kashmir	152	—	—	—	—	—	5	1	11	17	169
9. Kerala	489	26	18	—	—	44	37	4	17	58	591
10. Madhya Pradesh	606	—	17	—	5	22	45	8	18	71	699
11. Maharashtra	1665	44	3	—	—	47	135	—	18	153	1865
12. Mysore	630	—	—	10	—	10	112	2	12	126	766
13. Orissa	289	4	18	—	—	22	93	3	12	108	419
14. Punjab	359	4	7	—	—	11	102	1	—	103	473
15. Rajasthan	457	23	5	—	—	28	26	3	14	43	528
16. Uttar Pradesh	487	25	—	—	—	25	77	2	14	93	605
17. West Bengal	677	1	58	—	—	59	98	2	12	112	848
18. Tamil Nadu IIC*	1467	155@	733	14	—	902	249	6	—	255	2624
Total	10455	335	954	49	5	1343	1256	37	180	1473	13271

* As on March 27, 1970.

@ Includes investments in Madras State Electricity Board's bonds.

Appendix II

Statement showing the current rates of interest on deposits accepted by State Financial Corporations

(i) For deposits up to and including Rs. 50,000

Period of deposit	Rate of interest
12 Months and over but less than 24 months	5¾%
24 months and over but less than 36 months	6%
36 months and over but less than 60 months	6¼%
60 months and over	6¾%

(ii) For deposits above Rs. 50,000

Period of deposit	Rate of interest
12 months and over but less than 24 months	5%
24 months and over but less than 36 months	5¼%
36 months and over but less than 48 months	5½%
48 months and over but less than 60 months	5¾%
60 months and over	6%

Appendix III

Statement showing the particulars of loans of SFCs outstanding as on March 31, 1970 (including agency loans)

(Amounts in lakhs of rupees)

Corporation	Total loans		Loans to small scale unit		% of Col. 4 to Col. 2	% of Col. 5 to Col. 3
	No. of loans	Amount	No. of loans	Amount		
1	2	3	4	5	6	7
Andhra Pradesh	353	776	250	165	70.8	21.3
Assam	249	433	165	167	66.3	38.6
Bihar	169	336	115	125	68.0	37.2
Delhi	126	203	110	137	87.3	67.5
Gujarat	726	812	636	359	87.6	44.2
Haryana	204	608	108	139	52.9	22.9
Himachal Pradesh	27	28	25	11	92.6	39.3
Jammu & Kashmir	746	152	745	141	99.9	92.7
Kerala	121	589	58	169	47.9	28.7
Madhya Pradesh	288	606	205	155	71.2	25.6
Maharashtra	479	1668	1200	792	81.1	47.5
Mysore	415	630	359	247	86.5	39.2
Orissa	258	291	240	196	93.0	67.4
Punjab	244	398	200	200	82.0	50.3
Rajasthan	276	460	195	99	70.6	21.5
Tamilnadu IIC	240	1467	33	67	13.8	4.5
Uttar Pradesh	222	669	141	346	63.5	51.7
West Bengal	193	677	108	145	55.9	21.4
Total	6336	10803	4893	3660	77.2	33.9

Appendix – IV

Statement showing the percentage of overdues including amounts involved in suit-filed cases to total loans outstanding as on March 31, 1969 and 1970

(Amounts in lakhs of Rupees)

Corporation	Total loans outstanding as on March 31,		Overdues as on March 31,		Amounts involved in suit-filed cases as on March 31,		Total of (3) & (4) as on March 31,		Percentage of (5) to (2) as on March 31,	
	1969	1970	1969	1970	1969	1970	1969	1970	1969	1970
(1)	(2)		(3)		(4)		(5)		(6)	
1. Andhra Pradesh	748	776	43	60	17	48	60	108	8.0	13.9
2. Assam	402	429	59	82	107	108	166	190	41.3	44.3
3. Bihar	320	336	34	45	92	72	126	117	39.4	34.8
4. Delhi	142	203	8	5	9	11	17	16	12.0	7.9
5. Gujarat	558	803	39	34	7	9	46	43	8.2	5.4
6. Haryana	565	602	25	24	79	64	104	88	18.4	14.6
7. Himachal Pradesh	21	28	1	2	—	1	1	3	4.8	10.7
8. Jammu & Kashmir	125	152	3	7	14	13	17	20	13.6	13.2
9. Kerala	379	489	23	25	15	44	38	69	10.0	14.1
10. Madhya Pradesh	563	606	108	135	19	53	127	188	22.6	31.0
11. Maharashtra	1421	1665	104	114	6	32	110	146	7.7	8.8
12. Mysore	535	630	46	63	16	17	62	80	11.6	12.7
13. Orissa	293	289	41	50	71	74	112	124	38.2	42.9
14. Punjab	316	359	20	29	12	21	32	50	10.1	13.9
15. Rajasthan	388	457	10	22	28	31	38	53	9.8	11.6
16. Uttar Pradesh	375	487	25	30	30	15	55	45	14.7	9.2
17. West Bengal	663	677	90	103	27	19	117	122	17.6	18.0
18. Tamil Nadu IIC	1376	1467	252	360	2	2	254	362	18.5	24.7
Total	9190	10455	931	1190	551	634	1482	1824	16.1	17.4

APPENDIX V

Experience of Tamil Nadu Industrial Investment Corporation and other State Financial Corporations in the underwriting operations

TIIC

The Tamil Nadu Industrial Investment Corporation Ltd. (TIIC) commenced underwriting business in 1960. It has so far underwritten the issue of (or directly subscribed to) the shares of 53 public companies. Equity shares of the aggregate value of Rs. 46.6 lakhs issued by five companies, which were underwritten by the Corporation, were subscribed by the public. Of the shares of the aggregate value of Rs. 874.50 lakhs of 49 companies which were underwritten by the Corporation, those of the value of Rs. 813.67 lakhs devolved on the Corporation. A classification of these companies according to the size of their paid-up capital is given below;

Amount of paid-up capital	Number of Companies
Exceeding Rs. 1 crore	13
Rs. 50 lakhs — Rs. 1 crore	11
Rs. 25 lakhs — Rs. 50 lakhs	15
less than Rs. 25 lakhs	10

Of the 49 companies, 41 were newly set up and/or commenced production after the Corporation subscribed to their capital. The remaining eight companies were old concerns. The total value of shares taken by the Corporation in these eight concerns amounted to Rs. 55.09 lakhs as compared with Rs. 758.58 lakhs in the remaining 41 concerns.

2. The total amount of capital of the 49 companies underwritten by the Corporation was Rs. 874.50 lakhs. The value of shares that devolved on it at Rs. 813.67 lakhs formed 93% of the total amount underwritten. Of the shares underwritten, those for Rs. 670.42 lakhs, or 77%, were equity shares and the residue preference shares. A sizeable part of the preference shares underwritten is accounted for by six large-sized companies (having paid-up capital of over Rs. 1 crore), as shown below:

	Value of preference shares underwritten by the Corporation (Rs. in lakhs)
Madras Aluminium Company Ltd.	70.00
Chettinad Cement Corporation Ltd.	25.00
Dharangadhra Chemical Works Ltd.	12.95
W.S. Insulators of India Ltd.	11.50
Chemicals & Plastics India Ltd.	10.00
Plastic Resins & Chemicals Ltd.	10.00
	139.45

In the case of five companies the Corporation had underwritten the issue of only their preference capital (Total value of preference shares underwritten Rs. 36.20 lakhs). In all other cases, it had underwritten the issue of preference as well as ordinary shares. There is no fixed proportion in which the preference and the equity shares of each company have been underwritten; there are instances where the value of such equity shares far exceeds that of the preference shares and vice versa. No information is available about the rights attached to the preference shares; in particular whether they are cumulative preference shares or otherwise and regarding the rate of dividend. (In a few cases where the companies have started paying dividend, the rate varies between 7.8% to 9.5% taxable).

3. An industry-wise classification of the companies whose shares were underwritten by the Corporation is given below:

(Amount underwitten in lakhs of rupees)

Type of industry	No. of companies.	Preference shares	Equity shares	Total
Aluminium	1	70	80	150
Cement making	3	33	68	101
Electrical instruments	8	23	78	101
Paper and Paper board	1	—	100	100
Sugar	3	—	55	55
Iron and Steel	5	1	54	55
Shipping	1	—	50	50
Others	27	77	185	262
	49	204	670	874

It will be seen that by and large the underwriting was done in respect of modern industries.

4. Shares of the value of Rs. 608.70 lakhs were underwritten during 1960-65; these formed 70% of the total shares underwritten. The amounts underwritten during 1965-67 and 1967-70 were Rs. 184.16 lakhs and Rs. 81.65 lakhs respectively.

5. The capital structures of the companies at the time of issue of the capital underwritten by the Corporation are not available. It is, therefore, not possible to state to what extent the companies raised capital from among the promoters and their friends and to what extent they entered the market. However, a classification of the public issues of capital based on the per-

centage of the amounts of public issue to the latest available figure of paid-up capital of the companies is given below:

Percentage of amount of public issue to aggregate paid-up capital	Number of companies
Above 80%	4
61% — 80%	14
51% — 60%	13
31% — 50%	12
Up to 30%	6

Of the four companies under the 'Above 80%' group, two are large concerns and two are small units. By and large it may be taken that the Corporation had ensured that the promoters had a reasonable stake in the concerns whose public issues of shares were underwritten by it.

6. The value of the shares underwritten by the Corporation as a percentage of the amount of each public issue ranged between 6% and 100%. A classification of the issues of capital underwritten by the Corporation according to the percentage of the amount of public issue is given below:

Percentage of amount of public issue	Number of issues.
Above 70%	6
61% — 70%	3
51% — 60%	3
25% — 50%	37
less than 25%	6

Of the nine issues in the first two groups, seven are comparatively small amounts ranging between Rs. 3.25 lakhs and Rs. 15 lakhs and the remaining two are for fairly large amounts (Rs 100 lakhs out of a public issue of Rs. 145 lakhs by the Seshasayee Paper & Boards Ltd. and Rs. 50 lakhs out of a public issue of Rs. 70 lakhs by the South India Shipping Corporation Ltd.). No information is available as to whether the Corporation had participated with other underwriting agencies. In view of the fact that the bulk of the shares underwritten devolved on the Corporation and were taken by it, it is obvious that it had not done any sub-underwriting.

In the case of 7 companies, the Corporation's investments in their shares constitute less than 10% of their respective paid-up capital; this percentage ranges between 11 and 25 for 33 companies and between 26 and 33 for the remaining 9 companies.

7. Of the 49 companies whose shares were taken by the Corporation, 13 were already in production or commenced production within a period of a year from the date of payment of the initial payment towards the share capital; 16 commenced production between 1 and 2 years of the payment, 11 between 2 and 3 years, 6 between 3 and 4 years and the remaining 3 after 4 years. Companies in which the Corporation's contribution to capital was comparatively large generally commenced production within a period of 2 — 3 years from the date of initial payment of share money. The Seshasayee Paper & Boards Ltd. (Corporation's contribution to capital — Rs. 100 lakhs) commenced production 2 years and 5 months from the date of first payment. The period in the case of the Madras Aluminium Co. Ltd. (Corporation has taken shares of the value of Rs. 150 lakhs) was, however, nearly 4½ years.

Taking the date of payment of the last call on the shares, the lag between the date of payment and date of commencement of production was considerably less, not exceeding 2 years in most of the cases. It is possible that atleast in the case of the larger companies, the Corporation was able to ensure that calls were made on the shares commensurate with the progress of setting up the project.

8. 18 companies have commenced paying dividends. A classification of these campanies on the basis of the time taken for the maiden dividend after the Corporation contributed to their shares is given below:

	Number of companies
Less than one year	4
1 — 2 years	1
2 — 4 years	5
4 — 6 years	5
More than 6 years	3
	18

Ordinary shares of these companies, in which the Corporation has invested about Rs. 238 lakhs have been yielding dividend ranging between 6% and 12%. Preference shares of the paid-up value of Rs. 102 lakhs yielded dividend generally about 9.3% (preference shares for Rs. 20.45 lakhs have, however, been sold by the Corporation during 1969-70). The rest of the investments do not yield a return. A classification of these investments not yielding a return according to the number of years that have elapsed since the Corporation made the first payment towards the shares

is given below :

Number of years	Amount invested (in lakhs of rupees)	Number of Companies
More than 6 years	219	12
4 to 6 years	135	11
2 to 4 years	44	8
1 to 2 years	21	2
Less than 1 year	12	3

9. Barring one company in whose shares the Corporation has invested Rs. 7.5 lakhs, all the shares held by it are quoted on the stock exchange. The shares of six companies are quoted at a premium and the total appreciation in the value of the investment in these shares amounts to Rs. 136 lakhs. Twentyfive shares are quoted at a discount, the total depreciation in the value of the investments as compared to their market value being Rs. 64 lakhs. The remaining shares are quoted at par. It is possible that in some cases the quotations are only nominal. The net excess of the market value of the investments over their book value amounts to Rs. 72 lakhs. This reflects the unusual boom conditions witnessed in the stock exchange in recent months.

10. The amount of paid-up capital and reserves of the Corporation, the extent of its investments in shares at the end of June of each year since 1961 and the total amount of annual dividends received on the shares are shown in the following table:

(Amounts in lakhs of rupees)

At the end of June	Paid-up capital and reserves	Investment in shares	Dividend received
1961	141	152	—
1962	141	215	—
1963	144	322	0.62
1964	144	465	1.01
1965	198	551	2.69
1966	250	673	12.79
1967	307	713	21.34
1968	313	738	8.85
1969	349	747	40.82

It will be seen from the above table that the investment in shares far exceeded the paid-up capital and reserves. The average investment for the nine years works out to about Rs. 508 lakhs and over this period the Corporation received Rs. 88.12 lakhs as dividend. This works out to a return of 1.9% per annum as compared with the average rate of interest paid by

the Corporation on its borrowings which ranged between 4% and 5% during 1961-65, 5.2% and 6.1% during 1965-68 and was 6.3% during 1968-69.

11. The extent of investments made by the Corporation in shares of companies and the amount of loans outstanding at the end of each year are compared in the following table :

(In lakhs of rupees)

Year	Amount of investment in shares	Amount of loans outstanding	% of (2) to (3)
(1)	(2)	(3)	(4)
1960-61	152	378	40
1961-62	215	481	45
1962-63	322	693	46
1963-64	465	734	63
1964-65	551	819	67
1965-66	673	1060	63
1966-67	713	1215	59
1967-68	738	1208	61
1968-69	747	1410	53

The increase in the loans has not been commensurate with the extent of shares of new companies taken in the investment account so that there was no built-in cushion for absorbing the lack of yield on the investments. In this context it is interesting to note that in the case of Industrial Credit and Investment Corporation of India Ltd. which has been subscribing to shares of companies as well as assisting them through loans and advances (including debentures), the percentage of investments in shares to outstanding loans, which was 45% in 1961, came down to 20% from 1963 to 1965 and further to 14% — 15% since then.

2. *Andhra Pradesh SFC*

The Corporation started underwriting business in March 1966 and up to June 1970 had underwritten the issues of shares of six companies. While one of the companies had capital investment exceeding Rs. 1½ crores, the capital of the rest ranged between Rs. 27 lakhs and Rs. 45 lakhs. Five companies had already commenced production before the Corporation took up their shares. Three companies whose shares were underwritten were textile units, one a printing unit and the other two were engaged in manufacture of alloys and cycles, motorcycles, etc.

2. The total amount of shares offered for public subscription was

Rs. 55 lakhs (Rs. 27 lakhs equity and Rs. 28 lakhs preference). Out of this the Corporation underwrote Rs. 22 lakhs (equity Rs. 5 lakhs preference Rs. 17 lakhs), which came to 40% of the amount of public issue. Of the shares underwritten, Rs. 21.48 lakhs or 98% devolved on the Corporation. While in the case of three companies the Corporation had underwritten both preference and equity shares, in the remaining three cases it had underwritten only preference shares. The preference shares aggregating Rs. 9.50 lakhs carried dividend at 9.5% (3 cases) and the balance of Rs. 7.50 lakhs at 10% (3 cases). The shares of four companies (amounting to Rs. 12 lakhs) were cumulative and redeemable, in one case (Rs. 3 lakhs) they were non-cumulative and redeemable and in another (Rs. 2 lakhs) cumulative non-redeemable. Information regarding the period of redemption of the shares is not available.

3. The value of shares underwritten by the Corporation, as a percentage of the amount of each public issue, ranged between 14% and 100%. The Corporation underwrote and took up the entire issue of preference shares offered for public subscription. It does not appear to have entered into any arrangement for sub-underwriting.

4. In the case of five companies, the issues were made after they had gone into production. Two companies commenced production eight months after the date of the first payment.

5. One spinning mill paid dividend aggregating Rs. 0.75 lakh from the year 1967 on the cumulative redeemable preference shares taken up by the Corporation in 1966. Another company also paid a nominal dividend of Rs. 340 for 9 days for the year ended December 1967, when the Corporation had made only partial payments towards the preference shares underwritten by it. The company did not pay dividend in the subsequent years. A classification of the investments not yielding return according to number of years that elapsed since the Corporation made the first payment towards the shares is given below :

No. of years	Amount invested (Rs. in lakhs)	No. of companies
More than 4 years	1.49	1
2 to 3 years	7.70	1
1 to 2 years	4.99	2
Less than 1 year	4.79	1

6. The shares of all the six companies are quoted on the stock exchange. The shares of five companies are quoted at par and that of the other company at Rs. 126 (paid-up value Rs. 100). The total market value

of the shares works out to Rs. 22.65 lakhs, thus giving a capital appreciation of Rs. 0.65 lakh. The average yield on the investments in shares was about 1% only.

7. The investment in shares of companies as a percentage to outstanding loans of the Corporation at the end of June 1970 constituted 2.7 %.

3. *Gujarat SFC*

The Corporation started underwriting business in 1965. For this purpose it has entered into an arrangement with the Government of Gujarat by which the latter provides funds in the form of loans to the Corporation for underwriting equity as well as preference shares. In respect of preference shares the State Government advances loans to the extent of preference shares taken up as a result of underwriting and the rate of interest chargeable on the loan would be such as would leave a margin of 3% to the Corporation to cover the expenses. As regards loans for contribution to equity shares, there is no fixed rate of interest. Whenever dividend is declared 1% of the receipts would be taken by the Corporation towards overhead charges and the balance would be divided between the Corporation and the Government in ratio of 2 : 1. Losses, if any, on the sale of equity shares will also be shared between the two in the same proportion.

2. The Corporation has so far underwritten the shares of 13 companies and has also taken up shares as a result thereof. Of the total shares of Rs. 78.20 lakhs underwritten, Rs. 76.80 lakhs devolved on the Corporation. (Equity — Rs. 21.16 lakhs and preference — Rs. 45.59 lakhs — For the residual amount, information whether the shares are equity or preference is not available). A classification of the companies according to the size of their capital is given below :

Amount of paid-up capital	No. of companies
Exceeding Rs. 1 crore	3
Rs. 1 crore	5
Rs. 50 lakhs	2
Rs. 25 lakhs to Rs. 50 lakhs	1
Less than Rs. 20 lakhs	2
	13

In the case of 3 companies the Corporation underwrote only equity shares, in 4 companies only preference shares and in 4 companies both the categories of shares. Information about the nature of preference shares, whether they are cumulative or otherwise is not available.

3. An industry-wise classification of the companies is given below:

Type of industry	No. of companies	Shares underwritten (Rs. in lakhs)
Paper and pulp	2	15.00
Textiles (including rayon)	3	28.00
Machinery manufacturing and engineering	8	35.20
		78.20

It may be seen that a major portion of underwriting assistance has gone to modern industries. The shares of the value of Rs. 67.70 lakhs were underwritten during 1965-67 and Rs. 10.50 lakhs in 1968 and 1970. The decline in the assistance during the last two years may be attributed to the gradual reduction in the flow of assistance from the State Government for underwriting. The State Government had advised the Corporation in January 1968, to consider proposals within the overall budget allocations made for this purpose and where necessary do underwriting out of its own funds.

4. The amount offered for public subscription in relation to total capital of the companies ranged between 53% and 80% in two cases, 20% and 45% in four cases and to less than 20% in the other cases. The value of shares underwritten as a percentage to the amount of each public issue ranged between 10-20 in three cases, 20-40 in seven cases, 50 in one case and 100 in two cases. The contribution of the Corporation towards the share capital of the companies was less than 5% in five cases, 5—10% in five cases and 10—17% in three cases.

5. All the thirteen companies excepting two have already started manufacturing operations. Five companies were already in production before any payments were made towards their capital by the Corporation. Of the remaining six units, two units started production within a year from the date of first payment towards capital, three units between 2 and 3 years of the payment and one between 3 and 4 years of the payment. Taking the date of last payment, one unit commenced production before the last payment, two units in less than a year from the last payment, two units between 1 and 2 years and the remaining one after 3 years.

6. Information as to the rate of dividend on the preference shares is not available. But none of the companies has started paying dividend. The shares of only three companies are quoted on the stock exchange. Two of them are being quoted at a premium of 2% and 5%. The other

one is quoted at a premium of 42%. Assuming that the shares of the remaining companies are quoted at par, the capital appreciation on the total investments of Rs. 76.80 lakhs came to Rs. 3.76 lakhs. The corporation has not so far disposed of any shares that devolved on it as a result of underwriting.

7. The investments in shares in companies as a percentage to outstanding loans as at the end of June 1970 constituted 8.5%.

4. *Kerala FC*

The Corporation started underwriting business in July 1965 and had underwritten the shares of 5 companies till the end of June 1970. The State Government issued a directive to the Corporation in 1968 not to do this business as the State Industrial Development Corporation was authorised to do it. The total shares underwritten aggregated Rs. 19.46 lakhs or 23% of the public issue of Rs. 85 lakhs by the five companies. An amount of Rs. 19.42 lakhs (equity Rs. 6.97 lakhs and preference Rs. 12.45 lakhs) devolved on the Corporation. In the case of one company as against the face value of Rs. 3 lakhs of the shares which devolved on it, calls have been made on the Corporation to the extent of Rs. 2.25 lakhs. The total investments in shares as at end of June 1970 amounted to Rs. 18.66 lakhs. In one case the Corporation underwrote only the preference shares; in all other cases it underwrote both preference and equity shares. The preference shares in the case of 3 companies (Rs. 8.46 lakhs) are cumulative and redeemable carrying a dividend of 9½% per annum. In one case the amount underwritten by the Corporation constituted 100% of the shares offered for public issue. In the other cases, the shares of the Corporation ranged between 7.5% and 40%.

2. The paid-up capital of two companies was Rs. 1 crore each, of two other companies Rs. 30 lakhs each and of the fifth company Rs. 80 lakhs. Two companies are spinning mills, and the others are manufacturers of engineering, electrical and rubber goods.

3. Of the five companies, one started manufacturing activities before the Corporation subscribed to its capital and one unit is yet to start production. In the case of the remaining three companies, the time lag between the date of first payment and date of commencement of production came to 3 years and 2 months, 8 months and 1 year and 4 months. The lag between the last payment and commencement of production came to 15 months, 6 months and 9 months respectively.

None of the five companies has so far declared dividend. The shares are also not quoted on the stock exchange. The Corporation has also not disposed of any shares.

4. The investment of the Corporation in shares of the companies as a percentage to outstanding loans comes to 3.8% as at end of June 1970.

5. *Madhya Pradesh FC*

The Corporation commenced underwriting business in 1964. It had underwritten the shares of 4 companies — one in 1964, two in 1965 and one in 1968 — for an aggregate amount of Rs. 22.50 lakhs. In two cases it has underwritten both equity and preference shares, in two cases preference shares. The entire preference shares of Rs. 17.50 lakhs and equity shares for Rs. 4.98 lakhs (out of Rs. 5 lakhs underwritten) devolved on the Corporation. The shares taken up by the Corporation as a percentage to the total amount of public issues came to 14 in two cases, 27 in one case and 50 in the remaining. The value of shares taken up as a proportion to total capital of the companies was 11.7%.

2. Two companies were textile units and the other two engineering units. The paid-up capital of these companies was Rs. 79 lakhs, Rs. 75 lakhs, Rs. 35 lakhs and Rs. 25 lakhs respectively. All the units had commenced production. In one case the company started manufacturing operations before the subscriptions were made. The time lag for the other three companies between the initial payment and the date of commencement of production ranged between 7 months and 3½ years. The lag between the date of last subscription and commencement of production varied between 5 months and 3 years.

3. The shares of all the four companies are quoted on the stock exchange but quotation is available only in respect of two companies. In these cases the shares were quoted at a discount ranging between 2% and 25%. Assuming that the shares of the other two companies are quoted at par, the net depreciation on the total investments work out to Rs. 2.16 lakhs. None of the companies has declared any dividend so far.

6. *Maharashtra SFC*

The Corporation started underwriting in September 1966. It has so far underwritten cumulative preference shares aggregating Rs. 8 lakhs in respect of two companies. Shares for Rs. 7.40 lakhs devolved on it. While in the case of one company the shares taken up by the Corporation formed 20% of the amount offered for public subscription, in the other case they formed 4% of the public issue.

2. One of the units was incorporated in 1964 and the other in 1969. The earlier unit commenced production during 1967-68, i.e. 2 years after the date of first subscription and one year from the date of last subscription. The other unit has not started manufacturing activities. The paid-up capital of one of the units was Rs. 13 lakhs and that of the other Rs. 1.20

crores. The State Government has taken up shares to the extent of Rs. 5 lakhs in the latter company. The Corporation has not received any dividend so far. Though the shares are quoted on the stock exchange no transactions have been reported for the last few months.

7. ***Orissa SFC***

The Corporation started underwriting business in February 1964. Since then and till June 1965 it had underwritten 9.5% tax-free redeemable cumulative preference shares of three companies for an aggregate amount of Rs. 26.50 lakhs. After June 1965 it has not transacted this business.

2. In one case the entire amount of public issue of preference shares was underwritten by the Corporation and in two other cases, the amount underwritten formed 75% and 57% respectively of the preference capital issue. An amount of Rs. 26.11 lakhs devolved on the Corporation. However, immediately after the issue, the Corporation transferred 5,000 preference shares of the value of Rs. 5 lakhs so that the total shareholdings of the Corporation got reduced to Rs. 21.12 lakhs. This formed about 16% of the total share capital of the companies.

3. Two of the three companies are textile units; the third one is engaged in the manufacture of ferro-silicon. The latter concern and one of the textile units were established units and commenced produciton much before the Corporation subscribed to the share capital. The other one started manufacturing operations within a year from the first payment towards the shares but four months before the last payment. None of the companies has paid dividends on the shares so far. As reported by the Corporation, the shares of only one of the companies are quoted on the stock exchange. Even in this case the market price is not available.

8. ***Punjab FC***

The Corporation started underwriting operations in 1969 with the funds provided by the State Government specifically for doing this business. On the lines of the arrangements obtaining in Gujarat, the profit/loss arising out of the underwriting business would be borne by the Government of Punjab and the SFC in the ratio of 2 : 1.

2. As a matter of policy, the Corporation has decided to underwite equity issues of public limited companies which had worked for a few years and declared some dividend. Accordingly, it had underwritten in 1969 equity (Rs. 6.50 lakhs) and preference shares (Rs. 3 lakhs) of a table manufacturing company which commenced production as early as in March 1964 and paying dividends since 1967. Shares for Rs. 4.49 lakhs and Rs. 2.92 lakhs devolved on it. As a proportion to the total

amount of public issue and the paid-up capital of the company at Rs. 20 lakhs and Rs. 44 lakhs respectively, the shares taken up by the Corporation constituted 37% and 17% respectively. The Government of Punjab has also taken up the preference shares of an aggregate value of Rs. 7 lakhs.

3. Though as stated earlier the company started paying dividends since 1967, the Corporation will draw the dividend only after October 1970. The shares are quoted on the stock exchange but their market price has not been furnished by the Corporation.

9. *Rajasthan FC*

The Corporation started underwriting business in 1962 as a result of a policy adopted in January 1962 to underwrite the equity shares of companies. It had underwritten equity shares aggregating Rs. 10 lakhs of two textile mills up to June 1970. Shares of the value of Rs. 9.50 lakhs devolved on the Corporation. In one case the shares taken up constituted about 33% of the public issue and 9.2% of the total paid-up capital of the company and in the other case the percentages were 20 and 7 respectively. The remaining shares offered for public subscription had been taken up by IFC, LIC, IDBI, etc. The Government of Rajasthan had investments in the companies to the extent of Rs. 6 lakhs and Rs. 10 lakhs respectively.

2. Both the companies were established in 1960 and their paid-up capital stood at Rs. 50 lakhs and Rs. 70 lakhs respectively. The first unit started production much before the acquisition of shares by the Corporation. The other unit started manufacturing operations within a year from the date of subscription. One of the companies has not declared any dividend so far, while the other declared dividend for the first time in 1962, but not in the last three years.

3. The Corporation disposed of in 1970 its entire holdings in equity shares numbering 49,149 of the face value of Rs. 10/- each in a spinning and weaving mill at a premium of about Rs. 4 per share. This fetched a profit of Rs. 2 lakhs on the investment. It also disposed of in June 1970 the shares of the other company held by it since 1965 at par. Thus, it had liquidated its entire investments in shares of companies. The Corporation has explained that as the industries in initial years were not able to declare any dividend and the investments did not yield any return, it had decided to suspend this activity temporarily. It has, however, recently reconsidered the matter and taken a decision to underwrite shares in suitable cases.

10. *West Bengal FC*

The Corporation commenced underwriting in 1964 and had, up to the end of June 1970, underwritten the shares of 14 companies for an aggregate

amount of Rs. 59.50 lakhs (equity Rs. 29.50 lakhs and preference Rs. 30 lakhs). Shares of the value of Rs. 58.21 lakhs devolved on the Corporation (Rs. 28.47 lakhs equity and Rs. 29.74 lakhs preference). In 6 cases the Corporation underwrote only equity shares and in four cases only preference shares. In the remaining four cases it underwrote both equity and preference shares.

2. A classification of the companies according to the size of the capital is given below:

Amount of paid-up capital	No. of concerns
Exceeding Rs. 1 crore	1
Rs. 50 lakhs to Rs. 1 crore	2
Rs. 25 lakhs to Rs. 50 lakhs	8
less than Rs. 25 lakhs	3

3. By and large, the assistance of the Corporation has gone to medium-sized units. Of the 14 companies, 6 companies commenced production after the Corporation subscribed to their capital. The remaining eight concerns were old and/or started manufacturing operations before the Corporation subscribed to their capital. The total value of shares taken by the Corporation in the eight companies amounted to Rs. 23.21 lakhs as compared with Rs. 35 lakhs in the former six companies.

4. In relation to the amount offered for public subscription at Rs. 232.28 lakhs, the value of shares taken up by the Corporation (Rs. 58.21 lakhs) formed 25%. The contribution of the Corporation in relation to the amount of public issue varied between 41% and 50% (maximum in any single case) in 4 cases, 20% to 40% in 5 cases and less than 20 per cent in 5 cases. Thus, the Corporation has restricted its assistance to a reasonable level leaving the balance to the promoters or other underwriters. (Information regarding the share of other underwriters and promoters is not available). As a proportion to the total paid-up capital of the companies, the Corporation's commitments varied between 20% and 27% (maximum in any single company) in two cases, 10% and 20% in five cases and less than 10% in the remaining 7 cases.

5. Three companies commenced paying dividends, one within 2½ years after the Corporation contributed to the shares, another after about 5 years and the third one after about 2 years and 9 months. The dividend that accrued to the Corporation was Rs. 0.96 lakh during the year 1967-68, Rs. 0.76 lakh for 1968-69 and Rs. 2.22 lakhs for 1969-70. Investments in shares gave an average return of 1.5% per annum since 1964 to 1970.

6. A classification of investments not yielding return according to the

number of years that elapsed is given below.

No. of years	Amount invested (Rs. in lakhs)	No. of companies
Over 5 years	19.51	4
4 — 5 years	13.51	2
2 — 4 years	5.45	3
Less than 2 years	2.48	2

Only the shares of 8 companies are quoted on the stock exchange. Of these, the shares of 3 companies (Rs. 7.89 lakhs) are quoted at a premium and the shares of 5 companies (Rs. 17.44 lakhs) are quoted at a discount. Quotations were not available in respect of the remaining companies. On an overall basis, there is a net depreciation in the value of investments to the extent of Rs. 4.82 lakhs as compared with their book value.

The percentage of investment in shares to total outstanding loans as at the end of June 1970 worked out to 8.5%.

Appendix VI

A statement showing average net borrowing rate of State Financial Corporations, average return on their assets and the spread between the two for 1969–70 (for Tamil Nadu IIC 1968–69)

Corporation	Average net borrowing rate	Average return on assets	Spread available
(1)	(2)	(3)	(4)
1. Andhra Pradesh	5.9	7.8	1.9
2. Assam	4.5	7.5	3.0
3. Bihar	5.5	6.9	1.4
4. Delhi	5.8	8.7	2.9
5. Gujarat	5.5	7.1	1.6
6. Haryana	5.8	8.9	3.1
7. Himachal Pradesh	4.1	10.0	5.9
8. Jammu & Kashmir	6.2	8.8	2.6
9. Kerala	5.8	6.8	1.0
10. Madhya Pradesh	5.8	7.9	2.1
11. Maharashtra	5.7	7.7	2.0
12. Mysore	5.7	8.3	2.6
13. Orissa	6.0	7.9	1.9
14. Punjab	5.1	8.1	3.0
15. Rajasthan	5.9	7.4	1.5
16. Uttar Pradesh	5.7	7.8	2.1
17. West Bengal	5.5	7.8	2.3
18. Tamil Nadu IIC	6.4	7.5	1.1

Appendix VII

Sources and Uses of Funds of SFCs

(Rupees in lakhs)

	1969-70 (actuals)	1970-74 (Estimates)	Totals for 4th Plan period
	Rs.	Rs.	Rs.
A. Sources of funds :			
1. Increase in paid-up capital and reserves	122	852	974
2. **Borrowings :**			
(a) Bonds	1151	6005	7156
(b) IDBI	566	6865	7431
(c) RBI	507	1609	2116
(d) State Governments	68	334	402
(e) Others	62	282	344
3. Sale of investments	54	22	76
4. Deposits	267	407	674
5. Repayment of loans	1078	6545	7623
6. Others (including opening cash and bank balances)	669	3140	3809
	4544	26061	30605
	Rs.	Rs.	Rs.
B. Uses of funds :			
1. Disbursement of assistance by way of loans	2154	15816	17970
2. Investment in Goverment securities	—	10	10
3. Subscription to shares, ect.	34	486	520
4. Guarantees	45	36	81
5. Repayment of loans	1061	4955	6016
6. Redemption of bonds/ debentures	3	964	967
7. Repayment of deposits	258	163	421
8. Others (including closing cash and bank balances)	989	3631	4620
	4544	26061	30605

APPENDIX VIII

An extract from the note on methodology for estimating credit requirements of small scale sector prepared by the Office of the Development Commissioner (SSI).

On the basis of the growth trends observed during the period 1960 to 1964 in the net value added in small scale factories coming under the purview of the SSIDO, the figures for 1968-69 and the further production for 1973-74 were worked out. These were adjusted to a certain extent keeping in view the fact that there is likely to be fuller utilisation of capacity with increased availability of raw materials and the adoption of improved techniques of production, modernisation, etc. The ratios of net value added to investment in fixed assets calculated for different industries for the year 1964 were then utilised with adjustments where necessary to arrive at the estimated requirements of investment in fixed assets in small scale factories at beginning and at the end of the Fourth Plan. This worked out to Rs. 295 crores in 1968-69 and Rs. 475 crores in 1973-74. The additional requirement during the Fourth Plan period being Rs. 180 crores. In so far as the unorganised sector is concerned, estimates were prepared for this sector under the purview of the SSIDO as a whole since industry-wise approach was not possible. The estimates of national income accruing from small scale manufactures during 1967-68, namely Rs. 1327 crores was the starting point. By taking from this the contribution of household units and also the industries outside the purview of the SSIDO, a figure of Rs. 445 crores was arrived at. On the basis of trend observed so far, this figure is expected to rise to Rs. 575 crores by the beginning of the Fourth Plan and Rs. 885 crores by 1973-74. Utilising the ratio of net value added per rupee invested in fixed assets observed in the small scale factories and adjusting the same for modernisation, improved techniques of production, etc. expected in the unorganised sector the additional fixed investment was estimated at Rs. 175 crores. The recent revision of the definition of the small scale sector changing the investment ceiling from Rs. 5 lakhs for all fixed assets to Rs. 7.5 lakhs for only plant and machinery has brought into the small scale fold a number of units from the medium scale sector. In the absence of precise information about capacity, investment, etc. in all these units, the additional investment in this sector was approximately worked out at Rs. 35 crores. In all, therefore, the likely additional investment in the entire small scale sector under the purview of the SSIDO during the Fourth Pan period works out to Rs. 390 crores.

Appendix IX

List of activities eligible for cover under Credit Guarantee Scheme but not eligible for assistance by State Financial Corporations

1) Automobile servicing and repairing workshops

2) Servicing and repairing the following items :—

   (a) Machinery of any type used for production

   (b) Tractors

   (c) Pump-sets

   (d) Tube-wells

   (e) Boilers

   (f) Electric motors

   (g) Air-conditioning and refrigeration equipments

   (h) Road-rollers and other road-repair equipments

   (i) Radio receivers, electrical sound systems and different kinds of electrical equipment

   (j) Cine projectors and photographic equipment

   (K) Marine-diesel engines.

3) Custom service - hiring out agricultural machinery such as crawlers and wheeled tractors, threshers, combine harvesters and equipment for tube-well boring, plant protection, etc. and tube-well boring.

APPENDIX X

Statement showing the proposed amendments to the SFCs Act, 1951.

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	2 (c)	"industrial concern" means any concern engaged or to be engaged in the manufacture, preservation or processing of goods or in mining or in the hotel industry or in the transport of passengers or goods by road or by water or in the generation or distribution of electricity or any other form of power or in the development of any contiguous area of land as an industrial estate. **Explanation**—The expression "processing of goods" includes any art or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical or any other like operation;	2 (c)	"industrial concern" means any concern engaged or to be engaged in one or more of the following activities, namely— (i) manufacture, preservation or processing of goods; (ii) mining; (iii) hotel industry ; (iv) transport of passengers or goods by road or by water; (v) generation or distribution of electricity or any other form of power; (vi) **maintenance, repair or servicing of machinery of any description or vehicles or vessels or motor boats, trawlers or tractors;** (vii) **assembling, repairing or packing, with the aid of machinery or power, of articles for maintenance, sale, transport or disposal;**	40	

r. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
l)	(2)	(3)	(4)	(5)	(6)	(7)
				(viii) development of any contiguous area of land as an industrial estate;		
				(ix) **fishing or maintenance of shore facilities for fishing;**		
				(x) **providing special or technical knowledge or other services for promoting industrial growth, by designing machinery, plant, process of manufacture or the like, or by supervising or otherw'se assisting industrial projects.**		
				The existing explanation to clause (c) shall be re-numbered as **"Explanation 1".**		
				After the existing Explanation the following shall be inserted, namely **"Explanation 2—If any doubt arises whether or not a concern assisted or to be assisted by the Financial Corporation is an industrial concern, it shall be referred to the Reserve Bank whose decision thereon shall be final".**		

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2.	New clause		2 (ee)	"Industrial Development Bank" means the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 (18 of 1964);		Explanatory clause
3.	New clause		4 (3)(bb)	"the Industrial Development Bank";	80	
4.	4 (3) (d)	parties other than those referred to in clauses (a), (b) and (c).	4 (3) (d)	parties other than those referred to in clauses (a), (b), **(bb)** and (c);		Consequential to item 3
5.	New clause		4A (1)	Notwithstanding anything contained in this Act, the Financial Corporation may, subject to provisions of sub-section (1) of section 4, have an authorised, issued and paid-up share capital of a special class called special shares. This capital will be utilised for such purposes as may be specified by regulations.	86	

Sr. No.	Existing Section of the Act — No.	Existing Section of the Act — Text	Section as proposed to be amended — No.	Section as proposed to be amended — Text	Paragraph No. of the report	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			(2)	Special shares to be issued under sub-section (1) shall be divided into such number of fully paid-up shares and of such face value as the State Government may, in consultation with the Reserve Bank, determine.		
			(3)	Special shares issued under sub-section (1) shall be subscribed to by the State Government, Reserve Bank and the Industrial Development Bank in such proportion as may be agreed upon amongst them.		
			(4)	The terms of issue of special shares, the dividend, if any, to be paid thereon and all other incidental matters relating thereto shall be determined by regulations. Save and except that the dividend on special shares for an accounting year shall not be declared and/or paid at a rate in excess of the rate of dividend declared and/or paid for the same year on ordinary shares of like paid-up value.		

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				(5) Save as provided in this section and the regulations made hereunder, none of the provisions contained in this Act relating to the shares issued under sub-section (2) of section 4 shall apply to special shares issued under sub-section (1) of this section.		
6.	7(2)(b)	repayable on the expiry of a fixed period not exceeding eighteen months from the date on which the money is so borrowed, **against securities of the Central Government or of any State Government of any maturity, or against bonds and debentures issued by the Financial Corporation and guaranteed by the State Government and maturing within a period not exceeding eighteen months from the date on which the money is so borrowed :**	7(2)(b)	repayable on the expiry of a fixed period not exceeding eighteen months from the date on which the money is so borrowed :	88	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Provided that the amount borrowed by the Financial Corporation under clause (b) shall not at any time exceed in the aggregate sixty percent of the paid-up share capital thereof.		Provided that the amount borrowed by the Financial Corporation under clause (b) shall not at any time exceed in the aggregate **ninety** per cent of of the paid-up share capital thereof.		
7.	New clause		7 (2) (bb)	The money borrowed under clause (b) shall be guaranteed by the State Government as to the repayment of the principal and payment of interest.	91	
8.	7 (3)	The Financial Corporation may, for the purposes of carrying out its functions under this Act, borrow money from the State Government in consultation with the Reserve Bank on such terms and conditions as may be agreed upon.	7 (3)	The Financial Corporation may, for the purposes of carrying out its functions under this Act, borrow money from the State Government with **the prior approval** of the Reserve Bank on such terms and conditions as may be agreed upon.	101	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
9.	7 (5)	The total amount of bonds and debentures issued and outstanding, the amounts borrowed by the Financial Corporation under clause (b) of sub-section (2), sub-section (3) and sub-section (4) **and of the contingent liabilities of the Financial Corporation in the form of guarantees given by it or underwriting agreements entered into by it** shall not at any time exceed ten times the amount of the paid-up share capital and the reserve fund of the Financial Corporation.	7 (5)	The total amount of bonds and debentures issued and outstanding, the amounts borrowed by the Financial Corporation under clause (b) of sub-section (2), sub-section (3) and sub-section (4) shall not at any time exceed ten times the amount of the paid-up share capital and the reserve fund of the Financial Corporation.	69	
10.	10 (c)	one director nominated by the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948 (15 of 1948);	10 (c)	one director nominated by **the Industrial Development Bank;**	116	
11.	10 (f)	a managing director appointed by the State Government in consultation with the Reserve Bank and, except in the case of first appointment, also with the Board;	10 (f)	a managing director appointed by the State Government **on the advice** of the Reserve Bank and, except in the case of first appointment, also in consultation with the Board;	131	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12.	11 (3)	Notwithstanding anything contained in sub-section (2), an elected director shall continue in office until his successor is elected and shall also be eligible for re-election for not more than two full consecutive terms after the rotation of elected directors has begun.	11 (3)	Notwithstanding anything contained in sub-section (2), an elected director shall continue in office until his successor is elected and shall also be eligible for re-election **for a further term of four years :**	120	
13.	14 (1)	The managing director or any other director may resign his office by giving notice thereof in writing to the State Government, and, on such resignation being accepted, shall be deemed to have vacated his office.	14 (1)	**The managing director or any director nominated under clause (a) of section 10 may resign his office by giving notice thereof in writing to the State Government, and any other director by giving notice thereof in writing, to the Chairman, and, on such resignation being accepted by the State Government or the Board as the case may be, shall be deemed to have vacated his office.**	121	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
14.	17 (1)	The managing director shall—	17 (1)	The managing director shall—	150 (f)	
		(a) be a whole-time officer of the Financial Corporation :		(a) be a whole-time officer of the Financial Corporation: **Provided that the Board of Directors may permit the managing director to undertake, at the request of the Central Government or the State Government or the Reserve Bank, such part-time honorary work, whether related to the purposes of this Act or not, as is not likely to interfere with his duties as managing director.**		
		(b)......................;		(b) ....;		
		(c) hold office for such term not exceeding four years as the State Government may specify and be eligible for re-appointment;		(c) hold office for such term not **less than four** years as the State Government may specify and be eligible for reappointment;	131	

Sr. No. (1)	Existing Section of the Act No. (2)	Existing Section of the Act Text (3)	Section as proposed to be amended No. (4)	Section as proposed to be amended Text (5)	Paragraph No. of the report (6)	Remarks (7)
		(d) receive such salary and allowances as the Board, with the previous approval of the State Government, may determine :		(d) receive such salary and allowances **and be subject to such terms and conditions of service** as the Board, with the previous approval of the State Government, may determine :		Clarificatory.
		Provided that the first managing director shall receive such salary and allowances as the State Government may fix.		Provided that the first managing director shall receive such salary and allowances **and be subject to such terms and conditions of service** as the State Government may fix.		–do–
15.	18 (1) (a)	two directors elected by the nominated directors, one from among the directors nominated by the State Government, and one from among the directors nominated by the Reserve Bank and the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948 (15 of 1948) :	18 (1) (a)	two directors elected by the nominated directors, one from among the directors nominated by the State Government, and one from among the directors nominated by the Reserve Bank and the **Industrial Development Bank** :		Consequential to the amendment proposed to Section 10(c) vide item 10 above.

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Provided that in the case of a Joint Financial Corporation, in addition to the one director elected from among the directors nominated by the Reserve Bank and the Industrial Finance Corporation of India, as many directors as there are participating States shall be elected by the nominated directors, one each from among the directors nominated by each of the participating State Governments;		Provided that in the case of a Joint Financial Corporation, in addition to the one director elected from among the directors nominated by the Reserve Bank and the **Industrial Development Bank,** as many directors as there are participating States shall be elected by the nominated directors, one each from among the directors nominated by each of the participating State Governments;		
16.	19 (3A)	If, for any reason, a director nominated under clause (a) or clause (b) or clause (c) of section 10 is unable to attend any meeting of the Board, the State Government, the Reserve Bank or the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948, as the case may be, may depute any other person to attend	19 (3A)	If for any reason, a director nominated under clause (a) or clause (b) or clause (c) of section 10 is unable to attend any meeting of the Board, the State Government, the Reserve Bank or the **Industrial Development Bank,** as the case may be, may depute any other person to attend the said		Consequential to item 10 above.

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		the said meeting and such person shall, for all purposes of the said meeting, be deemed to be a director nominated under clause (a) or clause (b) or clause (c), as the case may be, of the said section.		meeting and such person shall, for all purposes of the said meeting, be deemed to be a director nominated under clause (a) or clause (b) or clause (c), as the case may be, of the said section.		
17.	19 (4)	If for any reason a director nominated under clause (a) or clause (b) or clause (c) of section 10 who is a member of the Executive Committee or any other committee is unable to attend any meeting of the Executive Committee or other committee, the State Government, the Reserve Bank or the Industrial Finance Corporation established under the Industrial Finance Corporation Act, 1948, as the case may be, may depute any other person to attend the said meeting and such person shall, for the purpose of the said meeting, be deemed to be a member of such committee.	19 (4)	If for any reason a director nominated under clause (a) or clause (b) or clause (c) of section 10 who is a member of the Executive Committee or any other Committee is unable to attend any meeting of the Executive Committee or other committee, the State Government, the Reserve Bank or the **Industrial Development Bank,** as the case may be, may depute any other person to attend the said meeting and such person shall, for the purpose of the said meeting, be deemed to be a member of such committee.		Consequential to item 10 above.

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
18.	21	The Financial Corporation may appoint one or more advisory committee or committees for the purpose of assisting the Financial Corporation in the efficient discharge of its functions and, in particular, for the purpose of securing that those functions are exercised with due regard to the circumstances and conditions prevailing in, and the requirements of, particular areas or industries.	21	The Financial Corporation may appoint one or more advisory **or other** committee or committees for the purpose of assisting the Financial Corporation in the efficient discharge of its functions and, in particular, for the purpose of securing that those functions are exercised with due regard to the circumstances and conditions prevailing in, and the requirements of, particular areas or industries.		Clarificatory.
19.	25 (1) (a) (ii)	loans raised by industrial concerns from scheduled banks or State co-operative banks;	25 (1) (a) (ii)	loans raised by industrial concerns from scheduled banks or State co-operative banks **or any other financial institution notified in this behalf by the Central Government;**	48	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
20.	New clause		25 (1) (bb)	guaranteeing the obligation of any scheduled bank or any other financial institution as may be notified by the Reserve Bank, arising out of or relating to deferred payments due from any industrial concern in connection with its purchase of capital goods;	47	
21.	New clause		25 (1) (cc)	accepting, discounting or re-discounting of bills of exchange and promissory notes of industrial concerns;	46	
22.	25(1)(d)	acting as agent of the Central Government or the State Government or the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948, or any other financial institution notified in this behalf by the Central Government in the transaction of any business	25 (1) (d)	acting as agent of the Central Government or the State Government or the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948, or any other financial institution notified in this	150 (e)	To remove ambiguity in the Section.

Sr. No. (1)	Existing Section of the Act — No. (2)	Existing Section of the Act — Text (3)	Section as proposed to be amended — No. (4)	Section as proposed to be amended — Text (5)	Paragraph No. of the report (6)	Remarks (7)
		with an industrial concern in respect of loans or advances granted, or debentures subscribed, by any one of them;		behalf by the Central Government **in any matter connected with, or arising out of, the grant by any of them, of loans or advances to any industrial concern or the subscription by any of them to debentures of any industrial concern, including the granting of loans or advances and the subscription to debentures;**		
23.	New clause		25 (1) (dd)	subscribing to the stock or shares of any industrial concern;	59	
24.	25 (1) (f)	retaining as part of its assets any stock, shares, bonds or debentures of an industrial concern which it may have to take in fulfilment of its underwriting liabilities, so however, that it disposes of the stock, shares, bonds or debentures so acquired as early as practicable, but in no case the stock, shares, bonds or debentures so	25 (1) (f)	retaining as part of its assets any stock, shares, bonds or debentures of an industrial concern **subscribed to by the Financial Corporation or** which it may have to take in fulfilment of its underwriting liabilities, so however, that it disposes of the stock, shares, bonds or		Consequential to amendment at item 23.

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		acquired shall be retained beyond a period of seven years from the date of such acquisition, except with the prior permission of the Reserve Bank :		debentures so acquired as early as practicable, but in no case the stock, shares, bonds or debentures so acquired shall be retained beyond a period of seven years from the date of such acquisition, except with the prior permission of the Reserve Bank:		
25.	25 (3)	**Subject to the provisions of sub-section (5) of section 7,** the aggregate of contingent liabilities of the Financial Corporation under clauses (a), (b) and (c) of sub-section (1) shall not at any time exceed twice the paid-up share capital and reserve fund of the Corporation except with the prior approval of the State Government and in consultation with the Reserve Bank but in no case shall exceed thrice the paid-up share capital and reserve fund of the Corporation.	25 (3)	The aggregate of contingent liabilities of the Financial Corporation under clauses (a), (b), **(bb)**, (c), and **(cc)** of sub-section (1), shall nct at any time exceed twice the paid-up share capital and reserve fund of the Corporation except with the prior approval of the State Government and in consultation with the Reserve Bank but in no case shall exceed thrice the paid-up share capital and reserve fund of the Corporation.		Consequential to item 20

Sr. No. (1)	Existing Section of the Act: No. (2)	Existing Section of the Act: Text (3)	Section as proposed to be amended: No. (4)	Section as proposed to be amended: Text (5)	Paragraph No. of the report (6)	Remarks (7)
26.	New Clause		25 (4)	No Financial Corporation shall hold shares or stocks in any company, whether as pledgee, mortgagee or absolute owner for an amount exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves whichever is less : Provided that any Financial Corporation which is on the date of commencement of this sub-section holding any shares or stocks in contravention of the provisions of this section shall report the matter without delay to the Reserve Bank and bring this holding of shares and stocks into conformity with the provisions of this sub-section within such period as the Reserve Bank may think fit to allow.	53	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
27.	New Clause		25A	**Use of words 'Finance Corporation' or 'Financial Corporation'** —		
				(1) No company, firm, individual or group of individuals shall, for the purpose of carrying on any business, use as part of its or his name any of the words "Finance Corporation or "Financial Corporation".	141	
28.				(2) If clause (1) is contravened, any person guilty of such contravention shall be punishable with fine which may extend to two thousand rupees and if the contravention is a continuing one, a further fine which may extend to one hundred rupees for every day during which the contravention occurs.		

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
29.	26, (i)	twenty lakhs of rupees in the case of a public limited company as defined in section 3 of the Companies Act, 1956 or a co-operative society registered under the Co-operative Societies Act, 1912 or any other law relating to co-operative societies for the time being in force; and	26 (i)	twenty lakhs of rupees in the case of **a private** or a public limited company as defined in section 3 of the Companies Act, 1956 or a co-operative society registered under the Co-operative Societies Act, 1912 or any other law relating to co-operative societies for the time being in force; and	76	
30.	26	New Proviso.	(26)	.... : Provided that the aggregate of — (i) the toal amount outstanding against the concern on account of any arrangements under Clauses (a) and (g) of sub-section (1) of Section 25 with any industrial concern, together with —	77	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				(ii) the amount of the face value of the shares and stocks of the industrial concern subscribed or agreed to be subscribed; and (iii) the liabilities on account of outstanding underwriting agreements and deferred payments guarantees; shall not exceed 30 lakhs of rupees in the case of a private or a public limited company or a co-operative society and 15 lakhs of rupees in any other case.		
31.	28 (b)	except as provided in clauses (f) and (g) of sub-section (1) of section 25, subscribe to the shares or stock of any company;		This sub-section may be deleted and sub-section (c) may be renumbered as sub-section (b).		This section is now redundant.
32.	New Clause		28 (c)	enter into any commitment for subscribing to or underwriting the issue of share capital or guarantee or granting any loan or advance to or on behalf of —	122	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				(i) any concern of which any of the directors of the Financial Corporation is a proprietor or in respect of which he is a guarantor, or		
				(ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor, or		
				(iii) any company (not being a company registered under section 25 of the Companies Act, 1956, or a Government company) of which any of the director of the Financial Corporation is a director, manager, employee or guarantor or in which he holds substantial interest.		
				Explanation 1 : "Substantial interest" means the holding of a		

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				beneficial interest by an individual or his spouse or minor child, whether singly or taken together, in the shares thereof, the amount paid-up on which exceeds 25 per cent of the paid-up capital of the company, whichever is less. **Explanation 2:** In this clause reference to a director of the Financial Corporation shall be construed as relating only to a director elected in pursuance of clause (d) or clause (e) of section 10.		
33.	29	Where any industrial concern, which is under a liability to the Financial Corporation under an agreement, makes any default in repayment of any loan or advance or any instalment thereof or otherwise f-ils to comply with the	29 (1)	Where any industial concern which is under a liability to the Financial Corporation under an agreement, makes any default in repayment of any loan or advance or any instalment thereof or	135	To expedite recovery

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		terms of its agreement with the Financial Corporation, the Financial Corporation shall have the right to take over the management of the industrial concern, as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged, hypothecated or assigned to the Financial Corporation.		otherwise fails to comply with the terms of its agreement with the Financial Corporation, the Financial Corporation shall have the right to take over the management of the industrial concern, **or without taking over the management of the industrial concern, to take possession of the property mortgaged, hypothecated or assigned to the Financial Corporation and in either case, shall have the right to transfer by way of lease or sale and realise such property.**		
34.	New Clause		29 (1A)	**For the purpose of enabling the Financial Corporation to take over the management of the industrial concern or to take possession of or to transfer or to realise the property pledged,**	135	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				mortgaged, hypothecated or assigned to it, as provided in Sub-Section (1), the Financial Corporation may request, in writing, the Chief Presidency Magistrate or the District Magistrate within whose jurisdiction such industrial concern carries on its business or such property is situate, to assist it in taking over the management of such concern or in taking possession of or in transferring or in realising such property and the Chief Presidency Magistrate or the District Magistrate as the case may be, shall, on such request being made to him, assist the Financial Corporation in taking over the management of such concern or in taking possession of or in transferring or in realising such property.		

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
35.	New Clause.		29 (1B)	**For the purpose of securing compliance with the provisions of sub-section (1A), the Chief Presidency Magistrate or the District Magistrate may take or cause to take such steps and use or cause to use such force, as may, in his opinion, be necessary.**	135	
36.	New Clause.		29 (1C)	**Where the Chief Presidency Magistrate or the District Magistrate acts in accordance with the provisions of this Section, he shall be deemed to have been duly authorised to do so and no such act shall be called in question in any Court or before any authority.**	135	
37.	32 (1)	When the application is for the reliefs mentioned in clauses (a) and (c) of sub-section (1) of section 31, the district judge shall pass	32 (1)	When the application is for the reliefs mentioned in clauses (a) and (c) of sub-section (1) of section 31, the district judge	139	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		an **ad-interim** order attaching the security, or so much of the property of the industrial concern as would on being sold realise in his estimate an amount equivalent in value to the outstanding liability of the industrial concern to the Financial Corporation, together with the costs of the proceedings taken under section 31, with or without an **ad-interim** injunction restraining the industrial concern from transferring or removing its machinery, plant or equipment.		shall pass an **ad-interim** order attaching the security, or so much of **the security** as would on being sold realise in his estimate an amount equivalent in value to the outstanding liability of the industrial concern to the Financial Corporation, together with the costs of the proceedings taken under section 31, with or without an **ad-interim** injunction restraining the industrial concern from transferring or removing its machinery, plant or equipment.		
38.	33 (2)	All moneys belonging to the fund shall be deposited in the Reserve Bank or the State Bank of India or a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 or, in consultation with the Reserve Bank, in a scheduled bank or a State co-operative bank.	33 (2)	All moneys belonging to the fund shall be deposited in the Reserve Bank or the State Bank of India or a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 **or any of the banks included in column 2 of the**	150 (d)	To place the nationalised banks on par with the State Bank group.

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				First Schedule to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or in consultation with the Reserve Bank, in **any other** scheduled bank or a State co-operative bank.		
39.	35A (1)	The Financial Corporation may establish a special reserve fund, to which shall be transferred such portion of the devidends accruing to the State Government and the Reserve Bank on the shares of the Financial Corporation as may be fixed by agreement between the State Government and the Reserve Bank:	35A (1)	The Financial Corporation may establish a special reserve fund, to which shall be transferred such portion of the dividends accruing to the State Government, **the Industrial Development Bank** and the Reserve Bank on the shares of the Financial Corporation as may be fixed by agreement between the State Government, **the Industrial Development Bank** and the Reserve Bank :	87	
		Provided that the total amount in the said fund shall at no time exceed		Provided that the total amount in the said fund shall at		

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		ten per cent of the paid-up share capital of the Financial Corporation.		no time exceed **twenty-five** per cent of the paid-up share capital of the Financial Corporation.		
40.	(2)	No shareholder of the Financial Corporation, other than the State Government and the Reserve Bank, shall have any claim to the special reserve fund.	(2)	No shareholder of the Financial Corporation, other than the State Government, **the Industrial Development Bank** and the Reserve Bank shall have any claim to the special reserve fund.		Consequential to item 39.
41.	(3)	The amount standing to the credit of the special reserve fund may be utilised by the Financial Corporation for only such purposes as are approved by the State Government and the Reserve Bank.	(3)	The amount standing to the credit of the special reserve fund may be utilised by the Financial Corporation for only such purposes as are approved by the State Government, **the Industrial Development Bank** and the Reserve Bank.		-do-
42.	37 (1)	The affairs of the Financial Corporation shall he audited by not less	37 (1)	**The affairs of the Financial Corporation shall be audited by**	140	

Sr. No.	Existing Section of the Act — No.	Existing Section of the Act — Text	Section as proposed to be amended — No.	Section as proposed to be amended — Text	Paragraph No. of the report	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		than two auditors duly qualified to act as auditors of companies under sub-section (1) of section 226 of the Companies Act, 1956 (1 of 1956), one of whom shall be appointed by the State Government in consultation with the Comptroller and Auditor-General of India and the other auditor or auditors elected in the prescribed manner by the parties mentioned in clauses (c) and (d) of sub-section (3) of section 4, and such remuneration as the State Government may fix shall be paid to the auditors by the Financial Corporation.		**one or more** auditors duly qualified to act as auditors of companies under sub-section (1) of section 226 of the Companies Act, 1956 (1 of 1956), one of whom shall be appointed by the State Government **on the advice** of the Comptroller and Auditor-General of India and **if the auditor appointed by the State Government is not acceptable to** the parties mentioned in clauses (c) and (d) of sub-section (3) of section 4, **by another auditor,** and such remuneration as the State Government may fix shall be paid to the auditors by the Financial Corporation.		
43.	New Clause		37A (5)	If the Board fails to carry out the instructions given under sub-section (4), the State Government shall have the power to supersede the Board and		This would preserve the existing powers of the State Governments under

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				appoint a new Board in its place to function until a properly constituted Board is set up, and the decision of the State Government as to the grounds for superseding the Board shall not be questioned in any court.		Section 39 (3) of the SFCs Act. The change is consequential to the amendments suggested to Section 39 of the Act.
44.	New clause		38 (1A)	The Reserve Bank may at any time direct the Financial Corporation to furnish it within such time as may be specified by the Reserve Bank, with such statements and information relating to the business or affairs of the Financial Corporation (including any business or affairs with which such Financial Corporation is concerned) as the Reserve Bank may consider necessary.	150 (c)	

Sr. No. (1)	Existing Section of the Act No. (2)	Existing Section of the Act Text (3)	Section as proposed to be amended No. (4)	Section as proposed to be amended Text (5)	Paragraph No. of the report (6)	Remarks (7)
45.	39 (1)	In the discharge of its functions, the Board shall be guided by such instructions on questions of policy as may be given to it by the State Government in consultation with the Reserve Bank.	39 (1)	In the discharge of its functions, the Board shall be guided by such instructions on questions of policy as may be given to it by the **Reserve Bank** in consultation with the **State Government.**	115	
46.	(2)	If any dispute arises between the State Government and the Board as to whether a question is or is not a question of policy, the decision of the State Government shall be final.	(2)	If any dispute arises between the **Reserve Bank** and the Board as to whether a question is or is not a question of policy, the decision of the **Reserve Bank** shall be final.	115	
47.	(3)	If the Board fails to carry out the instructions on the question of policy laid down by the State Government under sub-section (1) of this section or the instructions given to the Board under sub-section (4) of section 37A, the State Government shall have tne power to supersede the Board and appoint a new Board	(3)	If the Board fails to carry out the instructions on **a** question of policy given by the Reserve Bank under sub-section (1) **the Reserve Bank may request the State Government to supersede the Board and appoint a new Board in its place to function until a properly con-**	115	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		in its place to function until a properly constituted Board is set up, and the decision of the State Government as to the grounds for superseding the Board shall not be questioned in any court.		**stituted Board is set up and the State Government shall comply with such request.**		
			(4)	**The action of the State Government in superseding the Board shall not be questioned in any Court.**		
48.	46A (1)	Where a Financial Corporation has been established for any State and any other State desires that the Financial Corporation should serve its needs, and the States, after consultation with the Reserve Bank, enter into an agreement which is published in the Official Gazettes of each of those States, then the Financial Corporation shall, on the issue of a notification in the Official Gazette by the Central Government, serve the needs of those States in terms of the agreement.	46A (1)	**Where a State not having established a Financial Corporation under section 3 desires that the Financial Corporation or Corporations of other State or States should serve its needs with respect to specified area and the States, after consultation with the Reserve Bank, enter into an agreement specifying among other things, the area to be served by the concerned Financial Corporation which is published in the Official Gazette of each of those States, then the Financial Corporation or**	150 (a)	

Sr. No.	Existing Section of the Act		Section as proposed to be amended		Paragraph No. of the report	Remarks
	No.	Text	No.	Text		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
				Financial Corporations shall on the issue of a notification in the Official Gazette by the Central Government, serve the needs of those States in terms of the agreement.		
49.	48 (1)	New Proviso.	48 (1)	.... Provided that neither such consultation with the Reserve Bank nor the sanction of the State Government shall be necessary in regard to matters relating to the amendment of Regulations governing the appointment and conditions of service of the employees of the Financial Corporation.	132	
50.	48 (3)	All regulations made under this section shall be published in the Official Gazette and shall come into force on such publication.	48 (3)	All regulations made under this section shall be published in the Official Gazette and shall come into force on such publication, **or from such date as may be specified therein.**	150 (b)	

APPENDIX XI

Views of the Co-ordination Committee of the Public Sector Banks on the question of participation arrangements between commercial banks and State Financial Corporations

(i) In the case of working capital advances to small scale units, the banks were frequently required to take more than a fair banking risk by reduction in margins, etc. and it was the usual practice in such cases to take fixed assets as collateral security to cover the additional risks involved. If the term requirements of small scale units were to be exclusively financed by S.F.C s., this additional cover would naturally not be available to the commercial banks. By financing the term requirements of the units themselves, not only would the banks have the advantage of securing an exclusive charge on the fixed assets, but the borrowers would also have the convenience of having to deal with a single institution. Having regard to these factors, it was felt that it would not be desirable for the entire term lending business of the medium and small scale industries to be confined to the S.F.Cs. only.

(ii) In regard to the participation arrangements, the view was that such arrangements were resorted to normally in three cases. Firstly, where the resources of a financial institution were limited and were not adequate to meet the demands from any borrower. This, however, was not always the case with commercial banks, particularly when the individual demands from the small scale sectors were by no means unmanageable. Secondly, participation arrangements would be desirable where an institution wanted to share the risk with another institution. This also was not the case in regard to the small industries as the risk was adequately covered by the guarantee provided by the Credit Guarantee Organisation of the Reserve Bank of India. Thirdly, such arrangements were indicated where a financial institution had to finance a very large number of small borrowers in a given area and lacked a proper organisation for administering and supervising such loans. Participation arrangements between the commercial banks and the S.F.Cs. may not thus be necessary except in specific circumstances in which an individual commercial bank may find it appropriate.

(iii) Where the S.F.Cs. had already sanctioned term loans for the acquisition of assets, it would be obligatory on the part of the commercial banks to finance the working capital requirements of such units. The general impression was that this was already being done and there was hardly any instance where a unit, which availed of facilities from the SFCs, was put to any difficulty by non-availability of finance for its working capital requirements.

APPENDIX XII

Statement Showing the coverage of assistance by State Financial Corporations in districts in their States

(Rupees in lakhs)

Name of the Corporation	Total No. of Districts in the State	No. of districts where at least one loan has been granted by the SFC	Total loans sanctioned up to 31-3-1970		Names of districts accounting for more than 60% of total sanctions		Total No. of districts covered in the last two columns
			No.	Amount Rs.	By amount	By No. of applications/units	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Andhra Pradesh	21	21	458	1325	Hyderabad, Vishakhapatnam, West Godavari, Kurnool	Hyderabad, Vishakhapatnam, Anantpur, East Godavari, Guntur	7
2. Assam	11	11	296	693	Lakhimpur, Sibsagar, Kamrup	Lakhimpur, Sibsagar, Kamrup	3
3. Bihar	17	16	171 (No. of units)	562	Patna, Dhanbad, Muzzafarpur, Ranchi, Darbhanga, Gaya	Patna, Dhanbad, Gaya, Shahabad, Ranchi	7
4. Delhi	2	2	194 (No. of units)	396	Delhi	Delhi	1
5. Gujarat	20	19	1290	1487	Ahmedabad, Surat, Baroda, Rajkot	Ahmedabad, Mehsana, Rajkot, Kaira	6
6. Haryana	7	7	345 (No. of units)	1273	Gurgaon	Gurgaon, Karnal	2

Name of the Corporation	Total No. of Districts in the State	No. of districts where at least one loan has been granted by the SFC	Total loans sanctioned up to 31-3-1970		Names of districts accounting for more than 60% of total sanctions		Total No. of districts covered in the last two columns
			No.	Amount Rs.	By amount	By No. of applications/units	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
7. Himachal Pradesh	10	8	45	86	Simla, Sirmur	Simla, Mandi, Kangra	4
8. Jammu & Kashmir	8	8	688	284	Jammu, Srinagar	Jammu, Srinagar	2
9. Kerala	9	9	238 (No. of units)	812	Ernakulam, Kottayam, Trichur Quilon	Kottayam, Quilon, Ernakulam, Trivandrum	5
10. Madhya Pradesh	43	35	377	908	Indore, Sehore, Ujjain, East Nimar, Ratlam, Gwalior	Indore, Sehore, Ratlam, Raipur, Jabalpur, Gwalior	8
11. Maharashtra	27	27	2729	3312	Greater Bombay, Thana, Poona	Greter Bombay, Thana. Poona Sangli, Kolhapur	5
12. Mysore	19	19	489	953	Bangalore, Chitradurga, Bijapur, South Canara	Bangalore, Dharwar, Tumkur, Mysore, Shimoga	8
13. Orissa	13	13	299	432	Cuttack, Sambalpur, Sundergarh	Cuttack, Sambalpur, Puri, Ganjam	5
14. Punjab	11	11	282	711	Ludhiana, Amritsar	Ludhiana, Amritsar	2
15. Rajasthan	26	23	284	788	Jaipur, Kota, Ajmer	Jaipur, Kota, Udaipur	4

Name of the Corporation	Total No. of Districts in the State	No. of districts where at least one loan has been granted by the SFC	Total loans sanctioned up to 31-3-1970		Names of districts accounting for more than 60% of total sanctions		Total No. of districts covered in the last two columns
			No.	Amount Rs.	By amount	By No. of applications/units	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
16. Uttar Pradesh	54	41	358	1129	Kanpur, Meerut, Lucknow, Allahabad, Varanasi	Kanpur, Meerut, Lucknow, Allahabad, Aligarh, Varanasi	6
17. West Bengal	15	10	246	1247	Calcutta & 24 Parganas	Calcutta & 24 Parganas, Howrah	2
18. Tamil Nadu IIC	13	13	321	2356	Chingleput, Coimbatore, Ramanathapuram, Tirunelveli	Chingleput, Coimbatore, Ramanathapuram, Madras	5

APPENDIX XIII

Steps taken by some of the SFCs to enlarge their business

1. *Andhra Pradesh SFC*

The Corporation has undertaken intensive campaigns in districts in close collaboration with the Industries Department. The Assistant Directors of Industries of the districts concerned are first asked to locate prospective entrepreneurs in the districts and convene meetings at important centres. On the appointed dates the Corporation's officials dealing both with financial and technical matters, visit the centres and explain individually to the prospective clients the terms and conditions and procedure for availing of assistance from the Corporation. Application forms are given with a request to gather the required data and keep them ready. The Assistant Directors are asked to inform the Corporation when the data are ready so that the Corporation could send another team of officials to help complete the applications. This procedure has helped to eliminate the delay involved in completion of formalities in connection with the applications for loans and ensures close liaison with the Industries Department.

The Corporation has conducted such campaigns in 13 districts and proposes to cover the remaining districts also as soon as a sufficient number of local entrepreneurs are located.

2. *Gujarat SFC*

In 1966-67 the Corporation set up an Industrial Investment Information cell to provide information on potential industries, financial assistance, collaboration arrangements, etc. The cell has prepared and published brochures on certain industries, area survey of a district and certain other studies and publications. The Corporation arranged for meetings with industrialists in the developing industrial centres and also participated in intensive campaigns, seminars, etc. In order to examine the question of promoting development of backward areas, as also encouraging technicians, a Survey Committee has been constituted. In participation with GIIC, the Corporation has sponsored an entrepreneurship development scheme to train initially 1200 entrepreneurs at six centres.

The Corporation has entered into participation arrangement with Bank of Baroda under which the Corporation grants loans for fixed assets whereas the bank finances the working capital requirements.

3. *Haryana FC*

The Corporation opened a branch office at Faridabad and proposes to open another at Hissar. It participated in a campaign organised by the NSIC

at Hissar district. The Corporation has entered into co-ordination arrangement with Bank of Baroda under which the bank finances working capital requirements at reduced margins against second charge on fixed assets, the first charge over which subsists in favour of the Corporation.

4. *Jammu & Kashmir SFC*

The Corporation has stepped up its publicity campaign. The Managing Director visited some of the districts along with a team of officials of the office of the Development Commissioner (SSI) and the State Directorate of Industries and Commerce.

The Corporation liberalised its lending policies by reducing the rate of interest and margin and extending the period of repayment; it now extends assistance against taxi cabs, tempos and old vehicles and has extended the repayment period from a maximum of 36 months to 46 months.

5. *Kerala FC*

The Corporation associated itself with an intensive small-scale industries development campaign conducted by the State Industries Department in 1969. Besides participating in the seminars organised periodically by associations of small-scale industries, the Corporation itself arranged meetings of small scale industrialists and prospective entrepreneurs to explain the scope of the aid that could be had from the Corporation for starting new industries and for expanding existing units.

6. *Madhya Pradesh FC*

The Corporation selects potential borrowers after a scrutiny of the list of units registered after 1969 with the Industries department in various districts and sends them letters giving details of the facilities and concessions. The branch managers (the Corporation has opened four branches) and other officials of the Corporation tour the districts and contact various parties on the basis of the lists. Assistance of District Industries Officers are also being obtained in this campaign. For backward districts, the district collectors have been requested to help the Corporation in extending the activities. Necessary publicity is also given through news papers. A scheme for starting intensive campaigns in some of the districts is also under consideration.

A scheme for assistance to transport industry has been introduced and the Corporation is also considering to lower the minimum limit of assistance from Rs. 10,000 to Rs. 5,000 consequent upon the State Government's decision to discontinue granting direct loans under State Aid to Industries Act.

7. *Maharashtra SFC*

Apart from tours undertaken by the senior officers of the Corporation and attending conferences and symposia, during 1969-70 the Corporation launched several area-wise intensive campaings. Such campaigns were undertaken in five districts besides the Marathwada and Vidarbha regions. These campaigns were organised systematically with the co-operation of the Director of Industries, NSIC, SISI and the local revenue authorities. Simultaneously, efforts are made to maintain direct liaison with local industries' organisations, Chambers of Commerce, Association of Industries, etc. The Managing Director also undertakes extensive tours of the different parts of the State with a view to understanding the difficulties, problems and the specific needs of different regions. He meets representatives of industries, Governmnt Officers of the area concerned, etc. to discuss the problems faced by them. The Managing Director and other officers attend the Divisional Industrial Development Board's meetings which are also attended by the top representatives of the concerned Government Departments, including the Ministers of the State Government, where the problems confronting a region in the matter of industrialisation are discussed, solutions hammered out and effective follow-up steps initiated. With a view to keep alive the enthusiasm generated by these campaigns and other measures and to ensure effective follow-up, the Corporation has opened new offices at different places in the State and re-organised its entire set-up. Plans are afoot to have a branch at the headquarters of every district. The Corporation associates itself with various surveys covering small-scale industries carried out by the State Bank of India. A representative of the Corporation also regularly attends the meetings of the local co-ordination committee appointed to look into the problems faced by small scale industrial units.

8. *Punjab FC*

Publicity to the activities of the Corporation and facilities offered by it are being given in the press, through radio talks and personal contacts. Meetings have been held during the last few months in almost all the districts of the State to which all the industrialists were invited.

The Corporation has recently decided to give loans at a concessional rate with a subsidy from the State Government. In view of the shortage of power in the State it has agreed to grant loans to industrial concerns for purchase of generating sets under a scheme formulated by the State Government.

9. *Rajasthan FC*

Meetings of industrialists are arranged periodically in different districts where information regarding assistance granted by the Corporation is

provided. Attempts are made to locate potential entrepreneurs and they are guided in the formulation of schemes and implementing them.

10. *Uttar Pradesh FC*

The Corporation conducted through Manvasi Consultants, New Delhi surveys on "Agricultural In-puts in Uttar Pradesh" and "Packaging Industry in Uttar Pradesh". A third survey on "Processed Food including Canned and Preserved Foods etc." is being conducted. The officials of the Corporation attend the Divisional Industrial Development seminars, conferences, etc. convened by State/Regional authorities and Chambers of Commerce with a view to have a first hand knowledge of the problems of industry in various districts and to explain the various types of facilities provided by the Corporation.

The Corporation which has two branches proposes to open 5 more branches. It is also considering setting up a sort of consultancy service in participation with other sister institutions in the State with a view to rendering quick and cheap service to the entrepreneurs in drawing up schemes for establishing industries. As a measure of enlarging the scope of its assistance it is considering a scheme for financing road transport operators and has formulated a scheme to assist units in backward areas on concessional terms of finance.

11. *West Bengal FC*

The Corporation has set up a technical wing which undertakes detailed studies of the industries in the districts and prepares schemes for the use of entrepreneurs. Visits are undertaken to explore potential industries in consultation with Chambers of Commerce, Business Conventions, Industries Department, etc. Entrepreneurs are approached with offers of financial assistance. The Corporation proposes to set up four branches, to serve better the underdeveloped districts of the State.

Appendix XIV

Statement showing a comparison of the extent to which a State Financial Corporation raising Rs. 10 lakhs will be able to strengthen its reserves if it raises the additional funds in the form of capital and through borrowings at various rates

			Capital*				Borrowings			
			3%	3½%	4%	5%	4½%	5½%	6%	6¼%
A.	(i)	Interest received on loans (the rates are shown within brackets)	0.85	0.85	0.85	0.85	0.80** (8%)	0.83** (8¼%)	0.85 (@8½%)	0.85 (@8½%)
	(ii)	Interest payable	—	—	—	—	0.45	0.55	0.60	0.63
B.	(i)	Taxable income of the Corporation	0.85	0.85	0.85	0.85	0.35	0.28	0.25	0.22
	(ii)	Transfer to Special Reserve Account at 20%*** of the taxable income to avail of benefit of income-tax rebate	0.17	0.17	0.17	0.17	0.07	0.06	0.05	0.04
	(iii)	Amount on which income-tax is payable [B(i)-B(ii)]	0.68	0.68	0.68	0.68	0.28	0.22	0.20	0.18
	(iv)	Income-tax payable at 55%	0.37	0.37	0.37	0.37	0.15	0.12	0.11	0.10
	(v)	Balance of profit	0.31	0.31	0.31	0.31	0.13	0.10	0.09	0.08
		Dividend payable on Rs. 10 lakhs	0.30	0.35	0.40	0.50	—	—	—	—
	(vi)	Surplus (+) or Deficit (–)	+0.01	–0.04	–0.09	–0.19	+0.13	+0.10	+0.09	+0.08
	(vii)	Add amount transferred to Special Reserve Account	0.17	0.17	0.17	0.17	0.07	0.06	0.05	0.04
	(viii)	Net surplus (+) or Deficit (–)	+0.18	+0.13	+0.08	–0.02	+0.20£	+0.16	+0.14	+0.12

* On the assumption that the entire amount is lent at 8½% per annum.

** The rate of interest recovered on loans is based on the refinance schemes under which funds may be had at 4¼% and 5½%.

@ Normal rates that may be charged.

£ Though the net surplus is the same borrowings may be preferred as the borrower has to pay only a lower rate of interest.

*** This will work out to 25% of the total income as defined in the relevent section of the Income-tax Act.

Appendix XV

Statement showing the changes to the office of Managing Directorship of State Financial Corporations.

Name of State Financial Corporation	Name of the Managing Director	Period of appointment				Qualifications	Whether State Government/ RBI/SBI official
		From	To	Period			
				Year/s	Month/s		
1	2	3	4	5	6	7	8
1. Andhra Pradesh	i) Shri R. Jivanth Rao	March 1956	October 1957	1	7	B. A., C. A. I. I. B.	Deputed from State Bank of Hyderabad
	ii) ,, E. Ramachandramurthi	November 1957	August 1961	3	10	M. A., C. A. I. I. B.	Former General Manager of Andhra Bank
	iii) ,, Humayun Yar Khan	August 1962	August 1963	1	—	I. A. S.	State Government official
	iv) ,, O. Swaminatha Reddy	August 1963	continues			B. Com., A. C. A.	Former Secretary/Accountant of the Corporation
2. Assam	i) Shri K. Varnasy	June 1954	June 1956	2	—	M.A., B.Com., LL.B., CAIIB.	Reserve Bank official
	ii) ,, C. B. Koul	June 1956	December 1957	1	7	Not available	Retired officer of State Bank
	iii) ,, K. P. Barooah	January 1958	November 1964	6	11	B. A.	Agent of State Bank
	iv) ,, T. P. Barua	November 1964	February 1968	3	3	Not available	Officer of State Bank
	v) ,, K. P. Barooah	February 1968	continues			B. A.	Agent of State Bank

Name of State Financial Corporation	Name of the Managing Director	Period of appointment				Qualifications	Whether State Government/ RBI/SBI official
		From	To	Period			
				Year/s	Month/s		
1	2	3	4	5	6	7	8
3. Bihar	i) Shri S. M. Ali	December 1954	February 1955	—	2	Not available	Director of Industries
	ii) ,, R. K. Desai	February 1955	February 1959	4	—	B. A. (Hons.), Bar-at-law	Retired Officer of Reserve Bank
	iii) ,, Ram Bhadra Thakur	June 1959	July 1963	4	—	M. A.	Bihar Finance Service
	iv) ,, H. P. Shaw	July 1963	December 1964	1	5	B. A.	-do-
	v) ,, R. N. Singh	December 1964	February 1966	1	2	M. A.	Government official
	vi) ,, Vishwa Nath Prasad	June 1966	continues			B.Sc., B.L. Associate of IARI (New Delhi)	-do-
	vii) ,, Anwarul Hoda	being appointed as Managing Director				I. A. S.	-do-
4. Gujarat	i) Shri D. G. Bhuptani	May 1960	March 1963	2	10	Not available	Retired Branch Manager of United Commercial Bank
	ii) ,, N. H. Shah	March 1963	continues			B.A., LL.B., G. D. C. A., C A. I. I. B.	Former Manager of Gujarat State Co-operative Bank Ltd.

Name of State Financial Corporation	Name of the Managing Director	Period of appointment				Qualification	Whether State Governmetnt/ RBI/SBI official
		From	To	Period			
				Year/s	Month/s		
1	2	3	4	5	6	7	8
5. Haryana	i) Shri S. R. Varma	April 1967	August 1968	1	4	I. A. S.	Government official
	ii) ,, L. C. Gupta	August 1968	March 1969	—	8	I. A. S.	-do-
	iii) ,, P. N. Bhalla	April 1969	continues			I. A. S.	Retired State Government official
6 Jammu & Kashmir	i) Shri A. Chatterjee	December 1959	October 1961	1	11	Not available	Retired officer of I.F.C.
	ii) ,, M. L. Bhalla	November 1961	October 1963	2	—	B. Sc.	Officer of RBI
	iii) ,, D. Maitra	November 1963	June 1967	3	7	B. A (Hons) CAIIB.	-do-
	iv) ,, S. C. Jain	June 1967	continues			M A., CAIIB	-do-
7. Kerala	i) Shri C. I. Abraham	November 1953	November 1957	4	—	I. A. S.	Finance Secretary of Kerala Government
	ii) ,, M. G. Achyuthan Nair	December 1957	April 1964	6	5	B. Com.	Dy. Secretary, Industries Department
	iii) ,, A. Prabhakaran	October 1964	October 1969	5	—	B. A.	Joint Secretary, Finance Deptt.
	iv) ,, K. A. Sreedhara Menon	October 1969	continues			I. A. S.	Government official

Name of State Financial Corporation	Name of the Managing Director	Period of appointment				Qualifications	Whether State Government/ RBI/SBI official
		From	To	Period Year/s	Month/s		
1	2	3	4	5	6	7	8
8 Madhya Pradesh	i) Shri J. F. D'Souza	July 1955	August 1956	1	—	Not available	Retired officer of State Bank of India
	ii) ,, C. B. Gupta	August 1956	August 1960	4	—	–do–	Dy. Finance Secretary to Government
	iii) ,, B. K. Chatterji	November 1960	September 1964	3	11	I. A. S.	Deputy Secretary to Government
	iv) ,, K. L. Agarwal	September 1964	January 1968	3	4	I. A. S.	State Government official
	v) ,, Brahma Swarup	January 1968	continues			I. A. S.	–do–
9. Maharashtra	i) Shri R. S. Bhatt	December 1953	May 1957	3	6	M. A.	Finance Officer in a leading insurance Co.
	ii) ,, O. H. Gheewala	July 1957	May 1959	1	10	B.A., LL.B.	Former Dy. General Manager of United Commercial Bank
	iii) ,, R. S. Pochkhanwala	June 1959	August 1962	3	2	Bar-at-Law	Former Secretary of the Corporation
	vi) ,, P. S. Mokashi	August 1962	December 1968	6	4	B. A.	RBI Officer
	v) ,, M. S. Palnitkar	December 1968	continues			I. A. S.	State Government official

Name of State Financial Corporation	Name of the Managing Director	Period of appointment				Qualifications	Whether State Government/ RBI/SBI official
		From	To	Period			
				Year/s	Month/s		
1	2	3	4	5	6	7	8
10. Mysore	i) Shri M. Vasudevarao	April 1959	May 1959	—	2	I. A. S.	Special official in State Government
	ii) ,, Veeraraj Urs	May 1959	November 1960	1	6	I. A. S.	Dy. Finance Secretary
	iii) ,, Chandappa Patel	November 1960	September 1961	—	11	I. A. S.	Dy. Commissioner
	iv) ,, C. M. Kempanna	September 1961	January 1967	5	4	Not available	State Government official
	v) ,, B. S. Narayan	January 1967	May 1969	2	4	B. Sc. (Hons.)	Not available
	vi) ,, C. S. Seshadri	May 1969	continues			I. A. S.	State Government official
11. Orissa	i) Shri V. L. Shirali	February 1957	June 1958	1	4	Not available	Government Officer
	ii) ,, R. N. Sahoo	June 1959	January 1968	8	7	A. C. A.	Corporation's Accounts Officer
	iii) ,, J. N. Mohanty	January 1968	continues			Not available	Not available
12. Punjab	i) Shri N. D. Nangia	November 1962	September 1964	1	10	B. A., LL. B., C. A. I. I. B.	RBI Officer
	ii) ,, H. L. Bahl	March 1955	March 1959	4	—	Not available	
	iii) ,, S. R. Varma	April 1959	March 1967	8	—	I. A. S.	Government official
	iv) ,, Sapuran Singh	April 1967	June 1969	2	2	I. A. S.	-do-
	v) ,, Sunder Singh	August 1969	continues			I. A. S.	-do-

Name of State Financial Corporation	Name of the Managing Director	Period of appointment				Qualification	Whether State Governmetnt/ RBI/SBI official
		From	To	Period			
				Year/s	Month/s		
1	2	3	4	5	6	7	8
13. Rajasthan	i) Shri S. B. L. Bhargava	January 1955	January 1961	6	—	B. Com.	From Bank of Jaipur
	ii) ,, G. S. Purohit	January 1961	January 1968	7	—	I. A. S.	Finance Secretary to Government
	iii) ,, Gajaraj Singh	January 1968	July 1970	2	6	I. A. S.	Government Official
	iv) ,, Jaswant Singh Singhvi	July 1970	continues			I. A. S.	–do–
14. Uttar Pradesh	i) Shri Ram Gopal	November 1954	October 1956	2	—	Not available	Government Official (Retired)
	ii) ,, J. C. Thukral	November 1956	October 1961	5	—	B. Sc., CAIB (Lon.)	Retired official of State Bank of India
	iii) ,, Bharat Bhushan	November 1961	July 1967	5	8	B.A., CAIIB	–do–
	iv) ,, N. Sethuraman	August 1967	May 1970	2	10	I. A. S.	State Govermment official
	v) ,, N. S. Mathur	May 1970	continues			I. A. S.	–do–
15. West Bengal	i) Shri H. P. Banerjee	March 1954	February 1961	7	—	B.Sc., CAIIB.	Official of State Bank
	ii) ,, M. K. Adhikari	March 1961	October 1964	3	7	B. A., CAIB (Lond.)	Retired officer of State Bank of India
	iii) ,, M. R. Roy	November 1964	continues			M. A.	Ex-officer of United Bank of India
16. Delhi	i) Shri K. C. Pandeya	May 1967	–do–			I. A. S.	Government official
17. Himachal Pradesh	i) Shri Gobind Sahai	April 1967	–do–			I. A. S.	–do–

Appendix XVI

State-Aid Loans-Agency arrangement with the State Financial Corporations

Name of the Corporation	The limit up to which individual loans are given under the State-Aid to Industries Act by	
	State Government	SFC under agency arrangement
(1)	(2)	(3)
1. Andhra Pradesh	In Telengana Region–up to Rs. 25,000	—
	In Andhra Region–up to Rs. 1,00,000	—
2. Assam	Rs. 10,000	From Rs. 10,001 to Rs. 20,000 and in special cases up to Rs. 50,000
3. Gujarat	Rs. 10,000	Rs. 10,001 to Rs, 75,000 and in exceptional cases up to Rs. 1,00,000
4. Kerala	Rs. 7,500	From Rs. 7,501 to Rs. 1,00,000
5. Maharashtra	Rs. 10, 000	Rs. 10,001 to Rs. 75,000
6. Orissa	Rs. 20,000	From Rs. 20,001 to Rs. 25,000
7. Punjab	Rs. 50,000	From Rs. 50,001 to Rs. 1,00,000
8. Rajasthan	Rs. 10,000	Rs. 10,001 to Rs. 25,000 and in special cases up to Rs. 75, 000
9. Uttar Pradesh	Rs. 15,000	Rs. 15,001 to Rs. 1,00,000

Appendix XVII

PART A

Rate of interest on loans given by State Financial Corporations.

Corporation	Small-Scale Units: Where refinace from IDBI is available: At concessional rate of interest of 4½%: Rate of interest (effective)	Re-bate	At normal rate of interest: Rate (effective)	Re-bate	Where refinance is not available: Rate (effective)	Re-bate	Units other than small-scale: Where refinance is available: Rate (eft.)	Re-bate	Where refinance is not available: Rate (eft.)	Re-bate	Special rate for certain Industries: Transport: Rate (eft.)	Re-bate	Cold Storage: Rate (eft.)	Re-bate	Hotel: Rate (eft.)	Re-bate	Industrial Estates: Rate (eft.)	Re-bate
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Andhra Padesh	8	½	8	½	8	½	8	½	8½	½	9½	½	8 (or 8½)	½	8½	½	—	—
Assam	8	½	8	½	8	½	8	½	8	½	—	—	—	—	8	½	—	—
Bihar	8	½	9	½	9	½	9	½	9	½	10½	½	9½	½	—	—	—	—
Delhi	8*	½	8@	½	8	½	9	½	9	½	—	—	—	—	—	—	—	—
Gujarat	7½	½	7½	½	8	½	8¼	½	8½	½	9½	½	—	—	9½	½	8½	½
Haryana	8	½	8	½	9	½	8¼	½	9	½	—	—	—	—	—	—	—	—
Himachal Pradesh	—	—	—	—	9	½	—	—	9	½	—	—	—	—	—	—	—	—
Jammu & Kashmir	8	½	9	½	9	½	9	½	9	½	9½	½	—	—	—	—	—	—
Kerala	7¾	½	7¾	½	8	½	8¼	½	8½	½	9	½	—	—	8½	½	—	—
Maharashtra	8	½	8¼	½	8½	½	8¼	½	8½	½	—	—	—	—	—	—	—	—
Madhya Pradesh	8	½	8½	½	8½	½	8¼	½	8½	½	—	—	—	—	—	—	—	—
Mysore	7½	½	7½	½	8½	½	8¼	½	8½	½	8¼	½	—	—	8½	½	8½	—
Orissa	8	½	8¼	½	8½	½	8¼	½	8½	½	9½	½	—	—	—	—	—	—
Punjab	8*	½	8*	½	9	½	8*	½	9	½	—	—	—	—	—	—	—	—
			8¼	½			8¼											
Rajasthan	8	½	8	½	8½	½	8¼£	½	8½	½	11	½	—	—	—	—	—	—
							8½**	½										
Uttar Pradesh	7½*	1	7½*	1	7½*	1	8	½	8	½	9	2	9	1	9	1	—	—
West Bengal	7	½	8	½	8	½	8¼	½	8½	½	N.A.	—	—	—	—	—	—	—
Tamil Nadu IIC	7½	½	7½	½	7½	½	9	½	9	½	—	—	—	—	—	—	—	—

* Up to Rs. 5 lakhs. @ Up to Rs. 1 lakh only. £ If refinance is available at 5½%. ** If refinance is available at normal rate.

PART B

Statement showing rates of interest charged by State Bank of India and nationalised banks on term loans and instalment credits

	Bank	Rate of interest
I	State Bank of India	9 to 9½
II	**Subsidiaries of State Bank of India**	
	1. State Bank of Bikaner and Jaipur	9 to 9½
	2. State Bank of Hyderabad	9¼ to 10
	3. State Bank of Indore	9¼ to 10½
	4. State Bank of Mysore	9½ to 10
	5. State Bank of Patiala	9 to 10
	6. State Bank of Saurashtra	9 to 10
	7. State Bank of Travancore	9 to 9½
III	**Nationalised Banks**	
	1. Allahabad Bank	8½
	2. Bank of Baroda	9
	3. Bank of India	9
	4. Bank of Maharashtra	10
	5. Canara Bank	9
	6. Central Bank of India	9¼
	7. Dena Bank	8½ to 9
	8. Indian Bank	9 to 9½
	9. Indian Overseas Bank	9½
	10. Punjab National Bank	8¼ to 9½
	11. Syndicate Bank	8½ to 10
	12. Union Bank of India	9 to 9½
	13. United Bank of India	9½
	14. United Commercial Bank	8 to 9½

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